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Transcriber's Office

Revenue Committee
February 04, 2009

[LB69 LB70 LB248 LB303 LB538]

The Committee on Revenue met at 1:30 p.m. on Wednesday, February 4, 2009, in Room 1524 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LB248, LB69, LB70, LB303, and LB538. Senators present: Abbie Cornett, Chairperson; Merton "Cap" Dierks, Vice Chairperson; Greg Adams; Mike Friend; Galen Hadley; LeRoy Loudon; Dennis Utter; and Tom White. Senators absent: None. [LB248]

SENATOR CORNETT: Good afternoon, and welcome to Revenue Committee. I am Senator Abbie Cornett from Bellevue. To my left, Senator Dierks from Ewing will be joining us; to his left will be Senator Greg Adams from York; and Senator Hadley from Kearney. The research analyst, Bill Lock, will also be here shortly; committee clerk is Erma James. To my far right is Senator Dennis Utter from Hastings; Senator LeRoy Loudon will be joining us from Ellsworth; Senator Tom White from Omaha; Senator Mike Friend from Omaha; and Shannon Anderson is my legal counsel. The pages today are Rebecca Armstrong and Elsie Cook. Before we start the hearing, I would please ask everyone to turn their cell phones either to off or silent. The sign-in sheets for testifiers are on the tables by both doors and need to be completed by everyone testifying. If you are testifying on more than one bill, you need to submit a form for each bill. Please print and complete the form prior to coming up to testify. When you do come up to testify, please hand your form to committee clerk. There are also clipboards in the back of the room to sign in if you do not wish to testify but would like to indicate your support or opposition to a bill. These sheets will be included in the official record. We will follow the agenda posted at the door. The introducers of the bill will present the bill, followed by proponents, then opponents, then neutral testimony. Only the introducer of a bill will be allowed closing remarks. As you begin the testimony, please state and spell your name for the record. If you have handouts, please bring ten copies of each handout for the committee. If you do not have ten copies, please hand them to the page and they will make copies and distribute them. With that we will begin the Revenue Committee and LB248. Senator Dubas, you are recognized to open. [LB248]

SENATOR DUBAS: Thank you. Good afternoon, Senator Cornett and members of the Revenue Committee. My name is Senator Annette Dubas; that's A-n-n-e-t-t-e D-u-b-a-s, and I represent the 34th Legislative District. The Earned Income Tax Credit is the federal government's largest benefits program for working families. Currently, the state of Nebraska offers an Earned Income Tax Credit at the state level. Nebraskans can claim a tax refund that is equal to 10 percent of their federal EITC. EITC is a federal income tax refund, and it has demonstrable impact as it moves the working poor into long-time commitment to employment. Originally, I had planned to introduce a change that would have directly impacted the percentage of the EITC. However, after much consideration, including the current budget shortfall, I realized that we needed a way to fund this increase. So I worked with Senator Cornett to come up with a resolution to

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

Revenue Committee
February 04, 2009

omit the refundable tax credit available for low-income individuals received for day care, referred to as the day care credits. Originally, I had intended to make this a revenue neutral bill. However, the 13 percent projection fell short. And in addition, many interest groups have contacted me with their concerns about eliminating the refundable portion of the day care credit, and I believe there are many of them here to testify today. LB248 would allow a refundable credit against income tax for working residents equal to 13 percent under Section 32 of the Internal Revenue Code, which is commonly referred to as the Earned Income Tax Credit. This, for all practical purposes, raises the Nebraska level from 10 percent to 13 percent. In addition, it changes the tax credit for low-income day care recipients. Currently, a refundable tax credit is available to families with an adjusted gross income of \$29,000 or less. Those over \$29,000 receive a nonrefundable tax credit. My legislation would make all the day care credits nonrefundable as an attempt to offset the cost of raising the EITC. From the fiscal projection I'm sure you can see that my attempt for a revenue neutral bill has been unsuccessful, but hopefully we will be able to continue to work on this and find some remedy to that situation. And I thank you for your time and would be happy to try to answer any questions. [LB248]

SENATOR CORNETT: Annette, when we met with the Tax Commissioner on this bill and we had this idea in regards to eliminating the one, wasn't it their opinion that the child credit was somewhat of a difficulty because it was not auditable? [LB248]

SENATOR DUBAS: Correct. They're...did have a difficult time auditing that process and felt that by making this transfer we would actually improve the EITC program, get those dollars into the hands of the people who qualified, and also make it a much easier program to administer, yes. [LB248]

SENATOR CORNETT: To manage; to streamline the tax system a little bit, and plus the families would still be eligible for their federal child care credit. [LB248]

SENATOR DUBAS: Correct. [LB248]

SENATOR CORNETT: Okay. Any questions from the committee? Seeing none, thank you. First proponent? Opponent? [LB248]

TIFFANY SEIBERT: (Exhibit 1) Good afternoon Chairperson Cornett, members of the committee. My name is Tiffany Seibert, T-i-f-f-a-n-y S-e-i-b-e-r-t. I am the policy coordinator at Voices for Children in Nebraska. We are testifying today in opposition to LB248. First I'd like to make it very clear that Voices for Children has, and will continue to be, a fervent supporter of the state Earned Income Tax Credit in Nebraska. The legislative body should take great pride in that Nebraska is one of 24 states who offer an EITC at the state level. And we recognize the critical role that this policy plays in lifting working families out of poverty every year. That being said, we are concerned about the offset that Senator Dubas referenced. The refundable dependent and child

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

Revenue Committee
February 04, 2009

care tax credit in Nebraska is currently targeted at families that make less than \$29,000 a year. So if we take a look at this credit, there were a little more than 12,000 families who filed the dependent and child care tax credit in Nebraska last year. These families received an average return of \$545. If we take a look at the Earned Income Tax Credit in Nebraska, it would be affecting the same group. These 12,000 families who received the refundable child and dependent care tax credit, yes, will also benefit by an increase in the EITC. But what we're concerned about is the net loss--a significant net loss in benefits that these families will experience. If we look at the average EITC return last year, for families it was \$190. If we look at the additional funding for the increase in the EITC that's allocated in LB248, it's \$7,410,000. If we divide that by the number of households who filed the EITC in Nebraska last year, we get an average increase of about \$66 per family. So these families making \$29,000 gross income or less in Nebraska that have previously received a \$545 tax credit to offset the cost of care for their children and dependent family members will be receiving a significant loss in benefits this year. So the bottom line is that we remain firm supporters of the EITC in Nebraska and will always support opportunities to increase this program, but we remain concerned about these families making less than \$29,000 who, most likely, are not receiving child care subsidy but are working. And if we take away the \$545 benefit and do not replace it with a significant increase in the EITC comparable to what they'd be losing, we're concerned about the hit that these families will take. Thank you. Yes. [LB248]

SENATOR CORNETT: Are you aware of what's included in the potential incentive package in regards to the EITC and how that will affect our state EITC? [LB248]

TIFFANY SEIBERT: I assume you're referencing the federal economic recovery package? As far as I know, from the research I've found, what the House bill does--and obviously the Senate is considerably up in the air, we have no idea really what's going to end up in that--but what I understand is that currently the EITC treats a family with two children the same as it treats a family with six children. From my research, what I know about the economic recovery package is that it will attempt to address that, recognizing that families with two children obviously face less expenses than a family with six children. And so it will attempt to remedy the number of children, and the way that affects the EITC return, but it won't provide an across the board increase. Now obviously we can't say that for sure. [LB248]

SENATOR CORNETT: But because our EITC is based on what the federal government...a percentage of what the federal government does in regards to EITC... [LB248]

TIFFANY SEIBERT: Right. [LB248]

SENATOR CORNETT: ...do you see if they increase that the potential shortfall in our

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

Revenue Committee
February 04, 2009

EITC credit? [LB248]

TIFFANY SIEBERT: Of course. [LB248]

SENATOR CORNETT: And in this economic time, do you have a remedy for making up that shortfall? [LB248]

TIFFANY SEIBERT: Well, I would be interested...I appreciate the attempt to make this revenue neutral. I think, obviously, in the times we're in that's the way things are headed and that's what we need to do. I just think it's interesting that we target a nonrefundable credit to the lowest income families. A family of four making \$29,000--that puts them at about 132 percent of the federal poverty level. So that means they're not eligible for food stamps, that's 130 percent of the poverty level; they're most likely not receiving child care subsidy; so I find it interesting that we would remove this critical tax credit that's helping the lowest income families. Perhaps we could look at capping the child and dependent tax...nonrefundable tax credit in Nebraska at a higher income level. I think it's interesting that we would look at this lower income and the significant benefit and remove it from families, whereas there might be opportunities at the upper limit. Because it's not capped, is my understanding, currently. [LB248]

SENATOR CORNETT: Do you...one more last question. [LB248]

TIFFANY SEIBERT: Sure. [LB248]

SENATOR CORNETT: There has been mention that if we don't find some way to work on funding the EITC that we might end up dropping percentages on that in the future. Based on the decision of which one do you lose, or percentage of which one do you lose? [LB248]

TIFFANY SEIBERT: Well, I obviously, I'm not here to make the big decisions, but I can tell you that the EITC is critically important to Nebraska's working families. We have to continue to find ways to support them. Nebraska consistently ranks in the top five states for working parents. We rank number one for the number of children under six with two parents in the work force in the country. Yet our poverty rates continue to increase since 2000. So you guys are in the chairs and have to make the tough decisions, but I would continue to encourage you that we have to find ways to support working families, or our children are going to pay the price for that. [LB248]

SENATOR CORNETT: Seeing none, thank you. [LB248]

TIFFANY SEIBERT: Thank you. [LB248]

SENATOR CORNETT: Next opponent. [LB248]

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

Revenue Committee
February 04, 2009

KATE BOLZ: (Exhibit 2) Good afternoon, my name is Kate Bolz, K-a-t-e B-o-l-z. I am the community educator for the Nebraska Appleseed Center for Law in the Public Interest. We are a nonprofit, nonpartisan, public interest law firm that advocates on behalf of low-income Nebraskans, and I'm here today to testify in opposition to LB248. We strongly support Nebraska's Earned Income Tax Credit program and the goal of expanding it to provide additional resources targeted to low-income families. The EITC has long been one of our strongest tools for reducing and preventing deep poverty. And while we support the idea of expanding the EITC, we are opposing LB248 because of the funding mechanism used, as already been cited today. LB248 would repeal an existing refundable tax credit for dependent care expenses that targets families making less than \$29,000 a year. A three-person household making \$29,000 a year is living just above the poverty line, and this type of refundable tax credit can provide a helpful infusion of money to cover a higher than expected utility bill, an essential car repair, or out-of-pocket medical expense. The average amount of this tax credit was \$545 in 2007. Essentially, LB248 creates a situation where two targeted refundable tax credits are posed as trade-offs. Given the tough economic times that loom ahead, growing lay-offs, rising unemployment, increasing costs for food and transportation, now is the time to make investments that help support and stabilize low-income working families, rather than repeal provisions of the tax code that provide targeted relief. We hope that another funding mechanism could be identified to allow the dependent care expenses refundable tax credit to remain in place while also funding an increase in the EITC, and urge the committee to explore these options. Thank you. [LB248]

SENATOR CORNETT: Seeing no questions, thank you. Next opponent. Is there anyone here in a neutral capacity? Senator Dubas, you're recognized to close. [LB248]

SENATOR DUBAS: Thank you, Senator Cornett and members of the committee. I appreciate those who did come forward to testify today. I, too, am a huge supporter of EITC and wouldn't want to do anything that would undermine the success of it in its current form. We were just looking for a way to streamline the process; hopefully make it a better program and a program that would actually give additional dollars to the working families of Nebraska. I think we pointed out some concerns and maybe some questions that we might have down the road, and hopefully we can continue to work on this bill and get it into the form that would continue to serve the people that we're looking to serve through this program and other types of programs. So I would be happy to continue to work with Senator Cornett and members of the committee on this bill and I'd be happy to answer any questions you may have. Thank you. [LB248]

SENATOR CORNETT: Thank you, Senator Dubas. [LB248]

SENATOR DIERKS: Senator Cornett to open on LB69. Whenever you're ready, Senator. [LB69]

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

Revenue Committee
February 04, 2009

SENATOR CORNETT: Thank you, Senator Dierks and members of the Revenue Committee. My name is Abbie Cornett, and I represent the 45th Legislative District, and I'm here to introduce LB69. I've been here a number of years now, introducing this, and some of the faces are new to the committee so we'll try and give you the whole picture in a little bit here. LB69 would exempt military retirement benefits from income tax. Beginning with the 2009 tax year, 10 percent of the retirement benefit would be exempt from state income tax. There would be a 10 percent increase each year thereafter, until 100 percent of retirement benefits would be exempt in 2018. Money is leaving our community. Money that supports our businesses, help build our homes, that keeps our young people from leaving the state. Offutt Air Force Base is a critical component of Bellevue's and the state's economic development, and LB69 is the key to keeping military personnel in town, and in our state, to support our communities. Twenty-three states exempt all military retirement benefits from income tax. Nebraska is one of five states that gives no exemption at all. As a result, many of our Offutt families choose to live in Iowa or other states, because their military retirements are partially or completely exempt there. We lose these families as employees, as property tax payers, as consumers, and as community leaders, and as good neighbors. I would like to stop this trend. I want our military families to know that we value them in Nebraska as much as the other 45 states that provide exemptions. I want businesses to know that Nebraska is working towards being progressive in economic development. You will be hearing from a number of people this afternoon who are interested in the economic development of Nebraska. Thank you for your time and consideration of LB69, and I would be happy to answer any questions that you have at this time. [LB69]

SENATOR DIERKS: Questions for Senator Cornett? Senator White. [LB69]

SENATOR WHITE: Senator Cornett, the total cost of this when totally implemented on an annual basis would be approximately what, \$22 million to \$24 million a year? [LB69]

SENATOR CORNETT: I believe so. [LB69]

SENATOR WHITE: Okay, thank you. [LB69]

SENATOR DIERKS: Other questions? Senator Friend. [LB69]

SENATOR FRIEND: Thank you, Senator Dierks. Senator Cornett, what...is there a...and again, it's being new to the Revenue Committee...I do, it seems, remember hearing about a bill similar to this but actually the teachers were talking about it in the lobby. Do we have...is retirement pay, is teachers' retirement pay taxed? [LB69]

SENATOR CORNETT: Yes. [LB69]

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

Revenue Committee
February 04, 2009

SENATOR FRIEND: The income, if you will, on that retirement thing. [LB69]

SENATOR CORNETT: The only two groups, I believe, that are tax exempt in the state of Nebraska are retired railroad employees and public safety workers that were injured in the line of duty. [LB69]

SENATOR FRIEND: Okay, that answered my question, thank you. [LB69]

SENATOR DIERKS: Senator Hadley. [LB69]

SENATOR HADLEY: Thank you, Senator Dierks. Senator Cornett, with the argument of keeping people, from an economic development standpoint, could we make the same argument with our young students who are leaving after college, you know, to keep them here? That we should offer them some kind of tax break to...for an economic development to keep recent college graduates in our state? [LB69]

SENATOR CORNETT: There is a fundamental difference between the recent graduates and people that are retiring from the military. The people that are retiring from the military a lot of times already own homes in our state; their spouses are employed in our state; their children go to our schools. They retire in their mid-40s; they are usually highly educated; they are very savvy in the workplace; they have skills that college graduates don't have in regards to work skills and technological skills. A few years ago, Senator Friend would remember that we had a bill that would exempt full military retirement. It came through the Revenue Committee and was amended to address the issue of a significant shortage of people in the defense contracting field. At any given time, we have hundreds of jobs open in the state of Nebraska that we cannot fill, because we do not keep our retirees here. They have a unique commodity, that being security clearances. Some of the other benefits for keeping military retirees here are, besides their educational benefits; their spouses, and their children remaining here; they will not fall onto our Medicare and Medicaid system because they receive TRICARE for life. Like I said, they are usually already well-established in the work force. [LB69]

SENATOR HADLEY: Thank you. [LB69]

SENATOR DIERKS: Other questions for Senator Cornett? Thank you, Senator Cornett. First proponent of the bill, please. Go right ahead, sir. [LB69]

EDWARD B. JANECKO, JR.: (Exhibit 3) Dear Chairman Cornett and Revenue Committee members, I am Edward B. Janeczko, Jr. Janeczko, J-a-n-e-c-z-k-o. I reside at 506 Windsor Drive, Papillion, Nebraska. I retired from the Air Force as a Major in 1996. I am currently employed as a defense contractor for BAE Systems in Bellevue, Nebraska, supporting United States Strategic Command at Offutt Air Force Base. I am representing myself. I want to thank Senator Cornett for all the work she has put in to

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

Revenue Committee
February 04, 2009

the related bills with the 99th and 100th Legislature. I hope that this year's effort will be successful in some shape or form. I most sincerely support LB69, as well as LB70 and LB538, either individually or in some combination of dollar limits or phase-in periods. As a matter of full disclosure, I would receive a personal benefit under any one of these three bills being heard today. It is important, however, that some step be shown to help entice us retirees with highly marketable skills, as Senator Cornett referenced, to remain here in Nebraska as productive income, sales, and property tax payers. Senator Cornett can reiterate the statistics, and she has some, from prior year's debate, on how much income and tax revenue Nebraska loses due to this brain drain of relatively young retirees. Just as recent studies have shown that LB775, which provided corporate tax breaks for companies investing facilities and workers here in Nebraska, is a net revenue producer to the state and local communities, any of LB69, LB70, or LB538 would also be a net revenue producer, I believe. As Senator Cornett referenced, there are a number of unfilled positions. My company is currently advertising 42 internal positions supporting United States Strategic Command remaining unfilled. And in fact, we're offering referral bonuses to attract qualified applicants. Each job will pay between \$65,000 and \$78,000 and more; they require security clearances and specialized experience which require either military or federal civil service experience. Some of the positions we are advertising are: Continuity of Operations Subject Matter Expert, COCOM Critical Infrastructure Analyst, Cyberspace Planner, Nuclear Effects Analyst, Global Strike Analyst, and Information Operations Subject Matter Expert and Analyst. In light of Offutt Air Force Base appearing on the finalist lists for both Air Force Global Strike Command, a light version of the old Strategic Air Command, if you will; and the 24th Air Force for Cyber Warfare, the demand for such well-paid, technical jobs will increase if Offutt is selected for either one or both. Additionally, BAE Systems is not the only contractor supporting United States STRATCOM. We have our competitors: Lockheed-Martin, SAIC, CSC, Northrop-Grumman, and others. And they each have unfilled positions available at comparable salaries and benefits in their existing contracts. Not to mention any additional contracts either Global Strike Command or 24th Air Force would bring in. I believe there would be a significant increase overall in net tax revenues to the state and local subdivisions if LB69 or LB70 or LB538 would be adopted. I thank you very much. Thank you. [LB69]

SENATOR DIERKS: Thank you, Edward. Are there questions? Does anybody have questions for Edward? I guess not. Thank you very much. Next proponent, please. [LB69]

MEGAN LUCAS: (Exhibit 4, 5) Good afternoon. My name is Megan Lucas, M-e-g-a-n L-u-c-a-s. I'm the president and CEO of the Bellevue Chamber of Commerce. I'm pleased to represent the Bellevue-Offutt business community, the Lincoln Chamber of Commerce, and the Military Association of Officers. I also have a letter that I'm submitting on behalf of the Nebraska Economic Developers Association. I'd like to thank Chairman Cornett and the senators for allowing me to speak to you this afternoon about

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

Revenue Committee
February 04, 2009

this vital economic issue that's affecting our great state. The Bellevue-Offutt community supports the philosophy that drives legislative bills such as LB69 and LB70. We are supporting this legislation because it will attract and retain experienced and disciplined work force, encourage population growth, and expand the tax base. Recruiting talented people, not just for jobs, but also to increase the population and customer base for the Nebraska businesses, is a top priority for economic developers. The majority of Nebraska counties continue to lose population, resulting in lost customers and continued downward spiral of the local economy. Finding new ways to attract people to communities is probably the next economic development strategy that will require creative approaches. No doubt we have some serious economic challenges, some of which seem to stem from our inability to compete successfully with other states for productive households. Much of the state exhibits slow or even negative growth. Between 2000 and 2007 only one county, Sarpy, experienced population growth faster than the national average. Moreover, our state has demonstrated a tendency to lose highly educated people. Between 1995 and 2000, we had a net loss of more than 4,500 young people with at least a bachelor's degree. Between 1985 and 1999, we lost \$246 million in personal income, about 1.1 percent of the state's total, because of brain drain. Brain drain is an occurrence that has become a point of interest for our state, with efforts directed at retaining our college graduates and professional students. The Bellevue-Offutt community entirely supports such efforts to retain our college students. For example, the Bellevue Chamber of Commerce started Bellevue University, and is a huge supporter and a big fan of Bellevue University's efforts to educate our states citizens, employees, and future leaders, and even our active duty military personnel at Offutt Air Force Base. But we think that there's another demographic that we should work to retain and attract, and that's the military retiree. I understand that when you hear the word retiree a mental image occurs, perhaps of a person who no longer works. But we are not talking about a traditional retiree. We are talking about a military retiree; not retired from work, retired from military duty. They say that the average person will go through 5-7 careers in their lifetime--I'm on my third. The military retiree is no different. These highly skilled people selected a career in the armed forces, but after their commitment is filled they transition into another career. That career can be in any business sector in any part of the country. We want them to choose Nebraska. The median age of the military retiree transitioning out of the service and into our communities is forty-three. That's the average age. These individuals have at least 20 years to invest in another career or, if they choose, five different other careers. As consumers they need homes, goods, and services. They start businesses, bring business to the state from other states, or join the existing work force. They pay taxes, contribute to charities and churches, vote, and serve as productive citizens with families in our state. As the CEO of the Bellevue Chamber of Commerce, I seek opportunities to speak on issues that impact the community and economic development. In that role, it is prudent to communicate that Offutt Air Force Base is Nebraska's third largest employer. In 2008, its total economic impact to our community...state was \$2.4 billion; 9,584 military members and civilian employees work on the base. 12,171 military family

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

Revenue Committee
February 04, 2009

members and 10,114 military retirees was out in the area, and the total payroll reached over \$493 million. We showcase Bellevue, Sarpy County, the greater Omaha Metro, and the entire state of Nebraska to our active duty guests. We want them to stay, or return to be our neighbors, our citizens, and our employees. If we want to attract technically skilled and educated people to our state, we need to attract and retain the military retiree. I understand your tremendous financial duties and fiscal realities. The decision to implement a tax...a special tax-reduction measure must be carefully balanced with the analysis of potential lost revenue. In this case, I believe that the net result of enacting the proposed legislation would be to increase the number of talented people who would settle in our state, growing our economic pie. This would increase overall tax revenues through additional tax income: income tax, sales tax, property tax, etcetera. As the pie grows, so does the state's portion through tax revenue. Our purpose is to provide additional information regarding the positive benefits of this type of legislation: attract and retain an experienced and disciplined work force, encourage population growth, and expand the tax base. Please move forward either LB69 or LB70 to the floor. [LB69]

SENATOR DIERKS: Thank you, Megan. Are there questions? Senator Hadley. [LB69]

SENATOR HADLEY: Just a quick question. You know, these are difficult issues, because we just heard a proposal on the Earned Income Tax Credit where we were talking about people making \$24,000-\$25,000 a year. And the last speaker talked about jobs with \$65,000-\$78,000 for a retiree; with retirement pay, conceivably a person could be making over \$100,000 a year. And we're coming to look for tax breaks for a person who's making \$100,000 a year at the same time we're trying to figure out how to help a person who's making \$24,000 a year with three people in the family. I just...I guess maybe it's more of a statement, but any comments on that? [LB69]

MEGAN LUCAS: Sure. Well, my comment to that would be, in the realm of community and economic development, we are always looking for ways to be competitive. And as you brought up earlier, we've seen the Department of Economic Development in the state spend funds on brain drain. And indeed, Chambers across the state are...we're creating our own programs to address brain drain. And the brain drain specifically addresses the graduating students. Now oftentimes...you know, I graduated from Missouri and I couldn't wait to get out of that state. I mean, I was ready to move on and do something else, and happily have landed in Nebraska. However, with the military retiree, they're choosing to be here. So the difference is, you know, certainly there is the difference between a military retiree and the bill you heard earlier. Those are issues that you got elected to handle. And I certainly support finding ways to do both. But we're trying to retain...we're trying to attract jobs that need very highly-skilled, technical individuals. And those individuals, those jobs, are either going to be in Nebraska or they're going to be in states that have military...that offer a discount...offer a break on military pensions. We are currently one of four states now that do not offer any break on

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

Revenue Committee
February 04, 2009

military pensions. Indeed, Minnesota just approved 100 percent break on the military retired pension, and Minnesota doesn't have a military installation. So I understand the quandary that puts you in. We're trying to grow the state, we're trying to keep talented, highly skilled, educated work force in the state of Nebraska. And those retirees choose...and sometimes will choose the state of Nebraska, then eventually one to ten of them will notify us that they've moved across the border to Iowa, because Iowa has a \$12,000 break on military pensions. So for us, it's about being competitive, it's about growing a very unique business sector in Nebraska, but also supporting the business industry as a whole. I mean, we have retired JAG officers that get out of the Air Force; they don't go into the defense industry, they go into...of counsel, any sort of litigation or law firms that they would like. There are teachers that come out of the military; there are doctors that come out of the military. There are maintenance specialists that come out of the military that have skill sets that we need in the state and that are choosing to live in Nebraska. So...I probably went a little off on a tangent there. I'm sorry, Senator, but... [LB69]

SENATOR HADLEY: No problem. [LB69]

MEGAN LUCAS: ...I wanted to communicate that. Thank you for your question. [LB69]

SENATOR DIERKS: Thank you. Other questions? I guess that does it. Thank you, Susan...Megan, sorry. [LB69]

MEGAN LUCAS: Thank you, sir. [LB69]

SENATOR DIERKS: Any other proponents? [LB69]

NED HOLMES: (Exhibit 6) I, too, have a letter from our CEO of the Omaha Chamber of Commerce, David Brown. [LB69]

SENATOR DIERKS: Go right ahead, sir. [LB69]

NED HOLMES: Good afternoon, Mr. Vice Chairman. I am Ned Holmes, that's H-o-l-m-e-s, and I am the Senior Military Affairs Liason for the Greater Omaha Chamber of Commerce. The Greater Omaha Chamber continues to be a strong and enduring advocate of legislation for attracting and retaining our retired military personnel. We have been consistent in supporting past legislation, and regret that previous bills were not already adopted to help us retain these highly-skilled and disciplined people. Look no further than the most recent economic impact analysis, that Ms. Lucas spoke to, of Offutt Air Force Base which reported a \$2.42 billion investment for fiscal year 2008 in our community. We also recognize the long term viability of the base is subject to mission needs and the interests of our nation. We can expect and anticipate another round of the base realignment and closure, or BRAC Commission, in the next few

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

Revenue Committee
February 04, 2009

years. Within this BRAC process, there is clearly a community component that has been considered in the past. For example, one area in these studies of the military installations include the ability of the infrastructure of the communities to support missions, forces, and personnel. So the inability of the defense industry contractors to hire employees in support of local issues is a negative factor for us; a simple fact that can be validated by our local companies, such as BAE. As we have stated during testimony before this committee in previous years, the Chambers continue to work closely with the business volunteers and our federal officials to protect these valuable assets, which passage of either of these bills, LB69 and LB70, that are before you will aid in doing. Looking forward, the importance of attracting new missions to our state and those military installations that we are so fortunate enough to have, continue to be a priority. And we can point to at least three opportunities at this very moment, for Offutt Air Force Base; two of which have been reported recently in the media. That of a numbered Air Force for Cyber, which is a planned 400-person operation; and the new Air Force Global Strike Command, up to 900 assigned people. In both cases, Offutt is on the short list, and the decision of the final location will be determined after a detailed site survey for each of these two missions has been completed. And the announcement will be made on the choices later this year--actually, midsummer. The mission opportunity has not been widely reported, and there's another one that would involve about 50 people, so we really have three. And I wanted to bring to your attention the article in yesterday's paper, in the Omaha World Herald. If you look at the bases that we're competing with, in those states...two of the missions are being competed for by Offutt Air Force Base and also Barksdale, Louisiana. Not taxed: the military retiree is not taxed in the state of Louisiana; it's a 100 percent exemption. Other finalists include F.E. Warren, Cheyenne, Wyoming, my hometown: no state income tax in Wyoming; Malmstrom, in Montana: they have a very limited exemption; Missouri has something, but very limited; Minot, North Dakota has some exemption; San Antonio, Texas: no state income tax; Langley, Virginia: very limited exemptions; Scott Air Force Base in Illinois: full exemption; and Peterson Air Force Base in Colorado Springs, Colorado: they exempt up to \$30,000 in retired pay. It should be emphatically stated here that there will be a multiplier effect if these missions are around Offutt Air Force Base. It will result in additional jobs and new investment. It is hard to make the case that the passage of either of these bills will give us a competitive advantage for these people, because there's only five states right now that currently do not offer the exemption. However, it will not be viewed as a negative in retaining and attracting retired military people to our state. We commend Senator Cornett for her efforts in introducing this legislation, and we ask for your prompt and fervent support and continued endorsement of these...either of these bills before the Unicameral. In summation, we are in definite support of LB69 and LB70. One comment I'd make, Senator, to your question on the...where do we draw the line? And a comment that I would make there is that: with the salaries of these retired people being at a higher level, the more of these people that we retain and attract, the more sources of income that we have for our state to meet some of the other needs at the lower salary levels. So I think the advantage offsets the

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Revenue Committee
February 04, 2009

disadvantage of not providing this exemption for our retired military people. So with that I would entertain any questions that the committee has. [LB69]

SENATOR DIERKS: Thank you, sir. You say your last name is Holmes? [LB69]

NED HOLMES: Right, it's H-o-l-m-e-s; yes, sir. [LB69]

SENATOR DIERKS: Mr. Holmes. [LB69]

NED HOLMES: Yes, sir. [LB69]

SENATOR DIERKS: Senator Adams, please. [LB69]

SENATOR ADAMS: Are you saying in your testimony then, that the federal government, when they go through these BRAC realignments or the expansion of a mission, they're looking at a state's tax code to make those decisions? [LB69]

NED HOLMES: What I read and what is written in the instructions for the last BRAC that was conducted in 2005...if you read the actual BRAC report, in the criteria used for that BRAC it talks about the community support or lack of community support. It's not the primary, number one driving, it's primarily about will this...is this base critical to the Department of Defense and to the missions that they are assigned. But there is a community component, and how supportive or lack of support that the community provides to the military people assigned, and to the surrounding industry that is needed to provide essential support to the military personnel and their missions. So there is a component in there, yes, sir. [LB69]

SENATOR ADAMS: All right, thank you. [LB69]

NED HOLMES: Yes, sir. [LB69]

SENATOR DIERKS: Other questions? Senator White, please. [LB69]

NED HOLMES: Yes, sir. [LB69]

SENATOR WHITE: Thank you for your testimony. And it's an intriguing bill. It has a price tag on LB70 of \$15,634,000 a year. Is it your testimony that we will, in fact, in...and that would be for 2010-11...is it your testimony that we will realize, as a state, more income than that if this bill's passed in that year? [LB69]

NED HOLMES: Yes, sir. I think...yes, sir. [LB69]

SENATOR WHITE: So in 2010-11, we will have a net increase in income. Is that your

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

Revenue Committee
February 04, 2009

testimony? [LB69]

NED HOLMES: We are saying, I think, collectively... [LB69]

SENATOR WHITE: Because of this bill. [LB69]

NED HOLMES: ...the proponents have all said that we don't have a number that we can give you as to what that offset would be to the fiscal note. But based upon the employments of dependents; the employment of the individual who is retired; based upon the property taxes realized; etcetera, etcetera, etcetera...that it can be demonstrated it will far surpass the fiscal note that we're talking about here, yes, sir. [LB69]

SENATOR DIERKS: Senator Friend, please. [LB69]

SENATOR FRIEND: Thank you, Senator Dierks. So Mr. Holmes, to follow up...the two bills combined, you're talking approximately two... [LB69]

_____ : (Inaudible) [LB69]

SENATOR FRIEND: ...no, I know, but LB69 and LB70 is what we're alluding to right now. You're talking about a \$20 million hit, according to the fiscal note. I'm not prepared to say that...I'm prepared to say, I guess, that I'm going to take your word for it. I believe that there would generate future income, but my question is, we...by sometime in April--late April, early May--we have to set up a budget that will be balanced. We mandatorily have to do it according to the constitution. We can't...now, some of this income, or the revenue generation that the state will see, is four and five and six years out. Come May, when we're ready to drive a budget forward, what...I mean, I guess it's...maybe it's a rhetorical question, but you're welcome to answer it. What would the Greater Omaha Chamber do if we had to go find \$20 million on the appropriations side when, it's my understanding, that the only people that are getting money is the education community, I guess, and Health and Human Services? We've got to crunch those numbers before the session is over, so if we go in and slash education to the tune of \$20 million, what's going to...maybe the Chamber doesn't have to do anything about it, but what's going to happen to the individual senators that end up having to do that to actually make the numbers match? [LB69]

NED HOLMES: Well, we have 20,000 retired military and dependents in our community right now. And those people, presumably a large number of those, are working for defense contractors and other means of employment; and there are schoolteachers. And I think we could probably extrapolate some numbers based upon what we have today and what they are contributing to our state that would provide a great point of reference to what you're speaking of right here. So they're already in our community.

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

Revenue Committee
February 04, 2009

The point is, we can't fill all the jobs that we have, Senator, and I think there's a baseline that we can look at. And I'm not sure that that information is available to this committee today, but it's something that we can... [LB69]

SENATOR FRIEND: Well, we're under the gun, come late April... [LB69]

NED HOLMES: Yes, sir. [LB69]

SENATOR FRIEND: ...to actually crunch the numbers and make them match. Now, I guess what I would submit to you that the numbers aren't going to match, according to the fiscal office, unless we come up with \$20 million to say, now the numbers match. Now a year after that, the revenue in a... [LB69]

NED HOLMES: Right. [LB69]

SENATOR FRIEND: ...short session, the revenue might just be out the roof and we're all celebrating and... [LB69]

NED HOLMES: Right. [LB69]

SENATOR FRIEND: ...and we've got our hands above our head. [LB69]

NED HOLMES: That's right. [LB69]

SENATOR FRIEND: But education's going to take a hit. I mean, I'm telling you right now, if we go \$20 million, right out of Revenue, this afternoon when we're done here, Appropriations is going to go, all right, all right. And I'm just wondering what the lobby's going to do when we're out there trying to justify that \$20 million hit in a 90-day session. That's all I'm saying. [LB69]

NED HOLMES: Okay. [LB69]

SENATOR FRIEND: Frankly, my guess would be, they won't be out there supporting us, but... [LB69]

NED HOLMES: Right. I would say that if these missions that I've addressed here, if they rise and fall upon this issue...for example, the potential impact on our community could be a quarter of a billion dollars if we land one or both of these missions. And I'm not sure... [LB69]

SENATOR FRIEND: Fair enough. [LB69]

NED HOLMES: ...it's going to rise or fall upon what you're saying, but I'm saying if we

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

Revenue Committee
February 04, 2009

don't land the missions, somebody else will, and it's a huge... [LB69]

SENATOR FRIEND: Fair enough, thank you. [LB69]

SENATOR DIERKS: Senator White. [LB69]

SENATOR WHITE: Yes. One of the community support factors is the quality education in the community, isn't it; the schools? [LB69]

NED HOLMES: Yes, sir. [LB69]

SENATOR WHITE: And hospitals? [LB69]

NED HOLMES: Yes. [LB69]

SENATOR WHITE: And roads? [LB69]

NED HOLMES: Yes, sir. [LB69]

SENATOR WHITE: Police? [LB69]

NED HOLMES: Right. [LB69]

SENATOR WHITE: And...here's the rock and the hard place. The Chamber has come to us with a number of very good tax proposals that have very high loss of revenue numbers. You...the Chamber's here asking us to get rid of sunset provisions on two tiers of the LB772 tax advantage. This is, as my colleague Senator Friend says, this is a \$20 million a year cost. I think our highest marginal rate is 7 percent which means you'd have to generate \$300 million in new income that didn't exist here today, just to break even. All right? And that doesn't include all the loss or other propositions that the Chamber's proposing. So the problem we've got is, literally, if we took the Chamber's proposals and put them in place, there will be no new roads. There will be, probably, major school cuts; universities will close, classrooms and/or will close them, and so we're trying to treat you as adults, you know. You're asking for things that have consequences that are overwhelmingly severe, and immediately following you is going to be a proposal that all social security income, which many states also have, be exempted; and another one that all governmental workers be exempted. And if we did just those two, the cost is over \$130 million a year. And you don't have a functioning state government at all, and we no longer have a community that will have police, schools, hospitals, fire, or any of those kind of functioning services at the level they want. Is this, in fact, what the Chamber wants? I mean, if the Chamber really wants these kind of tax cuts, are they really prepared to accept the consequences of these kind of tax cuts? [LB69]

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

Revenue Committee
February 04, 2009

NED HOLMES: I am here speaking on behalf of the military community, our industry; I'm not here on behalf of the Greater Omaha Chamber of Commerce and the other legislation before the various committees. But I will say that all of the elements that you've talked about, Senator, are also important to our military people: having good roads, having good schools. And I think, not speaking for Ms. Lucas, but speaking on behalf of the citizen of Papillion, it's very important that we have a great infrastructure around our bases in the military installations too. So there's going to have to be balance. [LB69]

SENATOR WHITE: How do you we choose between retired military and all governmental employees? Or between all governmental employees and all social security? [LB69]

NED HOLMES: I think we've covered this before, and we're obviously going to cover this again in this committee hearing. We feel that, based upon the discussion of Senator Cornett, Ms. Lucas, and others, that the people we are addressing here today bring some unique skills, and maybe more unique than the other categories that you're speaking to. [LB69]

SENATOR WHITE: Okay, I got it. [LB69]

NED HOLMES: Yeah. [LB69]

SENATOR WHITE: Thank you. And I appreciate your testimony. [LB69]

NED HOLMES: Yes, sir. Yes, sir. [LB69]

SENATOR DIERKS: Senator Hadley, please. [LB69]

SENATOR HADLEY: Yes. [LB69]

NED HOLMES: Yes, sir. [LB69]

SENATOR HADLEY: I appreciate your testimony. And you know, you mentioned the Omaha World Herald. I guess I have a concern that a headline in the Omaha World Herald that says: Unicameral gives a tax breaks to people that are making \$100,000 a year. We're in a climate now...we know what...obviously this isn't Wall Street or such as that, but the problem has been that we seem to give people with a lot of money--relatively a lot of money--the tax breaks. Now maybe that isn't true in here, but the numbers that we just heard with the jobs that are being offered to retired military, plus their tax breaks...and out in Kearney, Nebraska, I think people would read that headline and say, you know, they might call me up and say, what am I doing giving a

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

Revenue Committee
February 04, 2009

tax break to somebody who is making \$100,000 a year? So how would...if you were sitting in my place, how would you answer them? [LB69]

NED HOLMES: We're keeping real close tabs on the media from all the other communities that we're competing with, and I'll tell you, Senator, this is very objective. This is not very pro-community, very pro-Omaha, very pro-state; this is a very objective analysis of our competition. If you read the Shreveport, Louisiana media, or if you read the Minot, North Dakota media, it is...they are selling their state and there's no better place than Minot or Barksdale in which to put these missions. We didn't...this was not said by the Omaha World Herald; it was very objective. So we haven't really done ourselves any favor by this coverage, but at least we're being honest. And what we're trying to say is that we want to do what's in the best interest of the country, number one; and number two, what's in the best interest of the Air Force; and oh, by the way, we feel we have the best base, we have the best community support, we have the best state in which to accommodate this new mission, and we want it for those reasons. We don't want it because we're selfish. We want it because we think it's in the best interest of the country, and we have the historical precedent for it. We have the infrastructure in place, and so...I hear what you're saying but I think, if anything, we have been awfully careful in our advocacy for these missions and the wonderful things that our state has to offer in attracting this new mission. We need to probably do a better job and be more aggressive in advocating for these missions. But one of the factors will be community support, and the retirement bill is a very important part of that compared to our competition. They offer something; we offer nothing. That's a fact. You're going to have to wrestle with it. [LB69]

SENATOR HADLEY: Senator Dierks, can I follow up with... [LB69]

SENATOR DIERKS: Yeah. [LB69]

SENATOR HADLEY: ...just a comment: we're also one of the seven states that has a surplus right now... [LB69]

NED HOLMES: Okay. [LB69]

SENATOR HADLEY: ...that isn't cutting their education in the middle of the...I mean, you know, when you give all these breaks, all the other...what, 45 states? California's deficit is larger than the 100 countries gross national product. So you can give these breaks, and I understand that, and that's real good. But we're one of seven states right now that isn't looking at mid-year cuts in our higher education, our K-12 education, and such as that. So I just worry that we give away the revenue base...do we become... [LB69]

NED HOLMES: Yes, sir. [LB69]

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

Revenue Committee
February 04, 2009

SENATOR HADLEY: ...do we go from one of the seven to one of the 43 that is trying to figure out how, you know... [LB69]

NED HOLMES: Right. [LB69]

SENATOR HADLEY: Do we cut Senator Adams' schools; do we cut the higher education; do we cut the police force? [LB69]

NED HOLMES: Yeah, yeah. [LB69]

SENATOR HADLEY: I'm just saying, it's nice to say that 45 other states do it; but there are seven states right now that aren't sitting there at this table trying to figure out where they're going to close things to make things balance. [LB69]

NED HOLMES: Well, California--they don't offer much of an exemption. They don't need to. Langley, Virginia--they don't offer much. Like it says in the paper, you give them another mission, it's...the whole complex of the southeast is going to break away from the east coast and float out into the ocean, they have so much there now. And the same is true in California. So there's a certain synergy: when you have a lot of missions, you're going to get more. And it's water and mountains, in a lot of cases, and they don't seem to have quite as much interest in providing these retirement incentives because they don't need to. They haven't needed to. [LB69]

SENATOR HADLEY: Okay. I appreciate your coming... [LB69]

NED HOLMES: Yes, sir. Yes, sir. Yes, sir. [LB69]

SENATOR HADLEY: ...and I didn't mean to get on my soap box... [LB69]

NED HOLMES: No, that's fine. [LB69]

SENATOR HADLEY: ...but I just hope people understand that...the people of Nebraska are hurting now. [LB69]

NED HOLMES: Yes, sir. [LB69]

SENATOR HADLEY: We just...a 400-person plant in Kearney just laid off their work force for a week, and there's a question whether they're ever going to be back again. So, you know, it's this whole route...we're in a period of tough times, and I just... [LB69]

NED HOLMES: Yes, sir. [LB69]

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

Revenue Committee
February 04, 2009

SENATOR HADLEY: ...hope that comes across to you. [LB69]

NED HOLMES: Thank you. [LB69]

SENATOR HADLEY: Thank you. [LB69]

SENATOR DIERKS: Other questions for Mr. Holmes? I guess not. Thank you very much. [LB69]

NED HOLMES: Okay, thank you, folks. Appreciate it. [LB69]

SENATOR DIERKS: Next proponent, please. [LB69]

JEFFREY MILLER: (Exhibit 7, 8) Good afternoon, members. My name is Jeffrey Miller, J-e-f-f-r-e-y M-i-l-l-e-r. I am from Omaha, from District 10, from Senator Friend's area, and I am here on behalf of the State Veterans of Foreign Wars and the Omaha Chapter 2 MacArthur Disabled American Vets out of Omaha. You'll be getting from the page a letter of each one from the State Commander of the VFW who signed in support. That letter represents 25,110 members of the Veterans of Foreign War active members. The second letter you'll see is from the Commander of the Disabled American Vets from Chapter 2, who was very sick at the time, and his secretary was gone. You'll see a small typo on that letter and I'll put on the record, I apologize: it says LB169 and LB170, and it's actually LB69 and LB70. It's the second paragraph. So I apologize for that, so. We heard a lot of really, really good testimony today, and I will speak to you. I'm a veteran; obviously, by my age you can guess I'm not retired. I was...I left the Air Force out of six years. I was disabled: injured my back in the Middle East and I got sent home. So I will also open by saying, in response to Senator White's statement about, well, you know, we're going to have to go after police, and education, and roads; where does it all come from? I'll also speak to Senator Hadley's point of, these were veterans of the United States. These are men and women who served the country. We're talking retirement; a very small population. We're talking a small population. These are men and women that served oftentimes overseas, two or three tours, from their home; many of which, we all know, did not come home. Secondly, the population: my numbers show I have roughly 15,000 veterans in the Omaha area. The gentleman, Mr. Holmes, before said roughly 20,000. Again, these are Air Force, Marines, Army, what have you. These are veterans that retire in their mid-40s; they're educated, they have skills, they're coming back into the work force. Senator Hadley, you said well, what do we do? We have a poverty population that needs a tax break; we have everybody who needs a tax break. So what I'll say to you is that these, again, these are veterans. These are a small demographic who want to stay and typically will stay. Two of my very close friends retired from the United States Air Force, decided to stay in Nebraska; why? Well, it wasn't because of taxes but it was because the quality of life, the good life, the schools, the people. Bottom line, they stay here. They have houses, they pay property taxes, they license

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

Revenue Committee
February 04, 2009

their cars, they buy products in Nebraska; they support the Nebraska revenue stream. So when you look at this, I ask you to look at the population that we're actually speaking on behalf here. Also, Senator Friend, you said, in April we've got to pay the piper; by constitution, we have to balance the budget, period. We're asking for 10 percent, starting in 2009, over 10 years. We're not asking for the entire sum as \$20-22 million. This is 10 percent over 10 years. What agency, what department, what group doesn't want a tax break? I don't know. I mean, everybody wants lower taxes. Senator Hadley, if you go back, I believe...do you represent Kearney? [LB69]

SENATOR HADLEY: Yes. [LB69]

JEFFREY MILLER: Okay, Kearney, correct. Do you have a National Guard Armory? [LB69]

SENATOR HADLEY: Yes. [LB69]

JEFFREY MILLER: Okay. I would want you to ask some of those veterans, maybe, and...we're not talking Offutt; we're not talking contractors; we're talking National Guardsmen that have served their entire lives with the Kearney unit. I know the Kearney unit's been activated and sent overseas; I know they have. And they've come home. Many of those men and women will retire. I personally think they deserve a tax break on their retirement benefits. We're not talking your entire benefits package of education, healthcare...we're talking retirement. We're talking, again, a very small sample and a very small population. We talked about the brain drain. This is all about retention, retention, retention. On the other side, it's about being attractive, more attractive, and then just being extremely attractive to those big contracts that come in. Senator Friend, you noted, where does the Omaha Chamber come out with the \$20 million? Well, out of one of the Global Strike, the Public Affairs, or the Space Command that the Major testified, and Mr. Holmes; one of those contracts is probably about a billion dollars. Currently, Offutt contributes \$2.24 billion to the economy. And again, I don't mean to focus on Omaha--that's where I am so that's where I focus--but this is a statewide issue. Most of you, I'm sure, have a National Guard Armory; you have National Guard troops in your area, as I pointed out to Senator Hadley. Would we rather look at losing veterans because of this tax issue, to other states, such as Iowa? We always talk about our neighbors. You hear it with the tours and the Game and Parks; you know, it's our neighbors, our neighbors, our neighbors. Everybody goes to Colorado, everybody goes to South Dakota. Kansas, South Dakota, Wyoming: retirement benefits are not taxed. Missouri, Colorado, and Iowa offer some type of retirement tax benefit. Here's Nebraska, one of five states in the Union, with not very good company, in my opinion: California, Vermont, Rhode Island, and Connecticut. Those aren't very good states to be company with. We're one of five states left in the Union, and we're talking about veterans; retired veterans from the United States Armed Forces. With that I offer any questions. [LB69]

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

Revenue Committee
February 04, 2009

SENATOR DIERKS: Thanks, Jeffrey. Questions for Mr. Miller? Senator Friend. [LB69]

SENATOR FRIEND: Thank you. Mr. Miller, good to see you again. [LB69]

JEFFREY MILLER: Good to see you. [LB69]

SENATOR FRIEND: Thanks for the testimony. I wanted to make a point. According to our fiscal note...and you're absolutely right--there's a phase-in of 10 percent per year. In the biennium, what we're going to be forced to do is do a biennial budget at the end of April or early May. What LB69 alone would require is \$4.2 million, okay? And that's all right; that's what we would have to go over to Appropriations and say that that's what we're going to subtract from Appropriations. Well, then what Appropriations will do is that they'll go in and say, we need to go find that \$4.2 million. The only point that I was trying to make...and I didn't make a statement about this bill, how I'm going to vote one way or the other...the only point that I'm trying to make is when Appropriations time comes around, you've got to go find that \$4.2 million, and I guarantee they're going to go to education or they're going to go to HHS. [LB69]

JEFFREY MILLER: Um-hum. [LB69]

SENATOR FRIEND: And there's going to be squawking and screaming from the lobby. That was my only point. I'm fine with that because I've been used to them squawking and screaming for six years at us when we try to make cuts. I've got a bill with a tax cut in it. I think we all probably...in the last couple of years we'll have done that. Or in the next couple of years. But the reality is, when you talk about that 10 percent that you pointed out, there is a fiscal note attached for the biennium and we have to go find that money in Appropriations. And there is no extra money. What we have to do is take it away from somebody else. That's the only point, Mr. Miller. So, again, I may be okay with that. But I'm telling you the lobby won't be. I am here to tell you, after the experience that I've had, they will kick and scream. And I can just leave it at that. And your comment is welcome, but no...you're...what you said is true, and that's what I read, but there's \$4.2 million just with LB69 alone. If LB70 passes, his point was that it actually ratchets it up to \$20 million in the biennium. [LB69]

JEFFREY MILLER: Um-hum. [LB69]

SENATOR FRIEND: So if both bills pass, you're into Appropriations looking for \$20 million. That's it. It's as simple as that. And you have to balance the budget, so if it's good policy, it will happen. That's really all I have, so. [LB69]

SENATOR DIERKS: Senator White, please. [LB69]

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

Revenue Committee
February 04, 2009

SENATOR WHITE: Do you have children in schools? [LB69]

JEFFREY MILLER: I do; I have two. I'm married. My daughter will be six on Saturday, and my son is one and one-half. My... [LB69]

SENATOR WHITE: You may be looking at, if these kinds of things pass...just full disclosure, because I, too, may support this. And you will look at what many states have looked at. In the band, and of any kind of extracurricular activities, and at transportation...you're going to look at...we already underpay our teachers compared to the neighboring states. You look at the flight of your best teachers who are going to go. I have had a number of military people telling me exactly your point. I'm a retired veteran, I earned this overseas, dangerous, and as soon as my kids graduate from Nebraska high schools, I'm out of here. Well, why are they here? They're still here because their kids are getting one of the best available educations in the country. So if that's your choice and that's what you say our priorities should be, we may very well accept your priorities. Thank you, and I appreciate your testimony. [LB69]

JEFFREY MILLER: Sure, thank you. If I may, briefly, Senator, respond...Senator Friend and Senator White. I will agree-- we've got to come up with the money some way; you've got to rob Peter to pay Paul. It's just the way it is. Nobody's going to argue the economic status that's been forced down our throats through the media. Everybody knows that everybody's in a crisis. Everybody's got to tighten up. It hurts. What we're talking about is this bill that's been on the books for roughly, I believe, 18-some years. Finally, this year, it's actually got some legs and some people behind it, and you have plenty of paper in front of you to show that it's time veterans of this state get recognized through retirement benefits because of the economic impact it has. Senator White, you said well, as soon as my kids graduate, I'm out of here. Fine. I would argue that nine out of... [LB69]

SENATOR WHITE: I said I have been told that by a number of military veterans. But they're here. They don't want to move to other states that don't have...like Florida, or Louisiana... [LB69]

JEFFREY MILLER: Agreed. [LB69]

SENATOR WHITE: ...or Texas, because the quality of the education down there is very poor relative to us. [LB69]

JEFFREY MILLER: One of those statements you used to hear is from me. I used to live on 53rd; I had the honor of being represented by yourself. Then I moved into Keystone, where I'm at now, and Senator Friend, if anybody's been squawking at you it's been me the last six months, about everything. [LB69]

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Transcriber's Office

Revenue Committee
February 04, 2009

SENATOR FRIEND: No, no, no. No. [LB69]

JEFFREY MILLER: All I can say, Senator Friend, is that it was probably me up until a few years ago saying, you know what, I'm out of here too. But my wife is here. We're both here. I work for the bank in Omaha; she works for Boys Town over here. You know what? Times have changed. I've grown up a lot. And now the...for the state...for Nebraska to be one of five states...maybe this isn't the appropriate platform or the proper bill for veterans to get the proper recognition or the tax benefit they receive, but obviously from the letters you have in front of you, a lot of other people think differently, so. [LB69]

SENATOR WHITE: They do. But as a father, I understand that the Peter we're going to rob is probably going to be kids, including yours. [LB69]

JEFFREY HOLMES: Would you rather have those kids leave? They graduate, and then the parents pack up; they sell their house; they don't pay property taxes; they don't register their cars? [LB69]

SENATOR WHITE: I'm not arguing, I'm not arguing. [LB69]

SENATOR DIERKS: Jeffrey, you know, we have rules in the Legislature. You can't ask questions of us... [LB69]

JEFFREY MILLER: I apologize. [LB69]

SENATOR DIERKS: ...but we can ask questions of you. [LB69]

JEFFREY MILLER: I apologize, sorry. [LB69]

SENATOR DIERKS: Thank you. Any other questions for Jeffrey? I think that does it. Thank you very much for coming. [LB69]

JEFFREY MILLER: Great, thank you very much. [LB69]

SENATOR DIERKS: I appreciate your being here, yep. Next proponent, please. [LB69]

TIM GOODMAN: (Exhibit 9) Good afternoon, senators. My name is Tim Goodman, G-o-o-d-m-a-n. I'm a retired command sergeant major from the U.S. Army Reserves. I had listened to all of the testimony ahead of me and I had decided that I would not testify, but I think that there's a point that hasn't been addressed yet so I'm going to give my testimony. One has to look no further than the headlines in yesterday's Omaha World Herald to see the importance of the three bills you are considering today on military retirement pay. Now, Mr. Holmes has covered this in great detail so I'm not

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Transcriber's Office

Revenue Committee
February 04, 2009

going to hold up my copy of the Omaha World Herald. But as the article describes, there are two major Air Force commands looking for homes. One is the Nuclear Command, and the other is the Cyber Command. Both of these commands have several hundred personnel, and many states are lobbying to have them placed in their own communities. Well, let's see what Omaha has, or Nebraska has, to offer. At the present time, Nebraska offers incentives to companies to locate their work force here through LB775. We also offer incentives for the construction of ethanol plants, because they raise the price of corn which benefits our farmers. We cannot offer incentives to the United States Air Force, so that leaves us with only one other solution which is to offer incentives to the personnel who make up these commands. If Offutt Air Force Base is selected as the home of one or both of these commands, these personnel have the option of residing in Iowa or Nebraska, because there's not enough on-base housing for them to live in. Given the choice of living in a smaller state with twice the population of Nebraska, with lower property taxes, lower vehicle registration fees, less violent crime, a \$12,000 incentive on their retirement pay--on their state income tax--it does not take a genius to figure out where they're going to reside. However, if we incentivize these individuals by making their retirement pay exempt from state income taxes, and given that most armed forces personnel remain in the state where they reside when they retire, especially when they can get a civilian job after retirement at the Lockheed-Martin or Northrop-Grumman companies located right on Highway 370 in Bellevue, it certainly makes the scales tilt further in Nebraska's favor. These commands have generals in charge, and they will be looking at all factors in placing their personnel and themselves in the state that is most beneficial. Nebraska can compete, but it has to use the incentives in LB70 in order to do so. And it is just not these commands that will be affected by LB69 and LB70, but all retired personnel that will find that Nebraska is a great state in which to retire if one or the other...Senator White, I think you said both bills pass. I can't believe that both bills will pass; it's going to be one or the other of them, okay? Before I close, I would like to hold up this report of Base Realignment and Closure, BRAC, task force; a copy of which I just received here a few minutes ago. This is established under the authority of LR296 and prepared December 2008. It has Senator Bill Avery, BRAC Interim Study Task Force Chair. If you look at page 13 of this: the task force recognized the increasing competition Nebraska faces with its neighboring states, particularly Iowa and Colorado, and therefore recommends tax relief for military retirees. This is your committee's, not the Revenue Committee's, but your committee's report. I pray that you favorably consider one or the other of these bills and forward it to the Legislature for further consideration. Thank you. [LB69]

SENATOR DIERKS: Thank you, Tim. Questions for Mr. Goodman? Senator Hadley. [LB69]

SENATOR HADLEY: I just have one quick question, just so I completely understand it. These potential two new bases that we're in the running for at Offutt, or two new programs... [LB69]

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Transcriber's Office

Revenue Committee
February 04, 2009

TIM GOODMAN: Commands. The Nuclear Command and the Cyber Command. [LB69]

SENATOR HADLEY: Command. Are you saying that part of the criteria that they will use is whether or not we tax retirees' pay? [LB69]

TIM GOODMAN: That question was asked and answered by Mr. Holmes already, Senator. [LB69]

SENATOR HADLEY: So they...that will be one of the criteria? [LB69]

TIM GOODMAN: That is one of the criteria. [LB69]

SENATOR HADLEY: Specifically; they say specifically, the taxation is an issue. [LB69]

TIM GOODMAN: Local support...yes, sir, that includes that. [LB69]

SENATOR HADLEY: Okay. [LB69]

SENATOR DIERKS: Any questions? I think that does it. Thank you very much. [LB69]

TIM GOODMAN: Thank you. [LB69]

SENATOR DIERKS: Next proponent, please. How many more proponents are there to testify? It would be helpful if you'd move up into one of the front seats and make yourself a little more visible, thank you. [LB69]

CRAIG STRONG: (Exhibit 10) Good afternoon, Chairman Cornett, Vice Chairman Dierks. I'm Major Craig Strong, S-t-r-o-n-g. I'm here representing the National Guard Association of Nebraska. Its membership includes all the commissioned officers and warrant officers in the Nebraska Army and Air National Guard and a large number of retired officers as well. I'm also representing the Enlisted Association of the Nebraska National Guard, whose membership includes a large number of current and retired enlisted members of the Nebraska National Guard. It's well-known--maybe not well-known, but today's Nebraska National Guard is nearly 4,200 members strong, living across the state. I'm here to provide the perspective on not just the...it's been focusing a lot on the eastern side of the state, the perspective of supporting the active duty installation...I'm here to represent the citizen soldiers across all of your districts. Let me simply tell you that we support the intent of all the bills before the committee today, LB69 and LB70. Today the National Guard's role as a wartime force is greater than its ever been since World War II. The traditional National Guard role of homeland defense took on global importance since September 11, and the Guard has transformed into performing a full spectrum of missions. We are both the nation and the state's force that

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

Revenue Committee
February 04, 2009

is always ready and always there. For example, the Nebraska National Guard has now deployed nearly 98 percent of all its members in the past five years. I'm proud to be a part of that 98 percent, having just returned from Iraq last November. All told, I've deployed to Iraq twice in the past four years, which amounts to me serving in the combat zone 24 out of the last 48 months. Many of our soldiers are like me and are now facing their second mobilization in less than five years, which certainly has an impact on the member, their family, and their employer. Despite our sustained high overseas operational tempo, the Nebraska National Guard answers the call to support its neighbors to the south following hurricanes Gustav, Katrina, and Rita. And with regard to Hurricane Gustav last September, more than 1,000 Nebraska Guardsmen and Airmen were called up for duty in Louisiana as part of the single largest mobilization in Nebraska's National Guard history. We've also answered President Bush's call for homeland...security to homeland during the Arizona border support. And back home, we continue to serve the communities across the state playing the vital role in such events as fire suppression efforts in the western part of the state. We recently stood up the 72nd Weapons of Mass Destruction Civil Support Team and the newly organized emergency response unit equipped to perform rapid response, casualty decontamination, medical triage and treatment, and casualty search and extraction. These units stand ready to serve and provide enhanced homeland support capabilities to the citizens of Nebraska. As you can see, our soldiers and airmen are being used on a daily basis. This change will have consequences that our leaders must deal with, including the more frequent mobilizations that we are seeing now. There's no doubt that this transition will have an impact on our mission, especially for our mid-career officers and our enlisted personnel. We're seeing more people leaving Nebraska...the Nebraska National Guard, before they qualify for retirement, than in the past. When this happens, we lose a critical job and leadership skill that cannot be easily replaced. This drives training costs up and our capabilities to support the state and the nation as a whole. We see LB69 and LB70 as tools that can be used to help retain members who are on the fence when it comes to staying in for another five or ten years and earning a military retirement. We also think this bill has the capability to help in recruiting prior service personnel to stay in Nebraska, or come to Nebraska to finish their military careers in the Nebraska National Guard, serving Nebraskans. Let me point out a couple of other points on LB69 and LB70 that can be easily overlooked. All of these bills would have impact across the entire state since our army and air units are located across the state. We are just as interested in keeping soldiers in Chadron or O'Neill in the Nebraska National Guard to earn their retirement, as we are for soldiers in Kearney and York. Another point worth mentioning is that over the past decade, Nebraska has lost over 40,000 college graduates, which has been discussed earlier. By moving out of Nebraska, our soldiers and airmen...we lose, as has been stated earlier, highly sought-after talents and skills for the state. Retirees, as has been mentioned before, have critical mechanical and technical skills. And one statistic that maybe hasn't been mentioned is that 70 percent of our Nebraska National Guard force has completed at least some postsecondary education, compared to approximately 59 percent for the

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

Revenue Committee
February 04, 2009

Nebraska population as a whole. For these reasons, our associations support LB69 and LB70. We believe any one of these bills will have a positive impact on the current and future retired members of the Nebraska National Guard, and though there is a fiscal note for the near term, we believe the long term benefits and an investment for the future is worth the short term potential risks. We see these bills as readiness and retention roles as well, to help enhance our security across our state. As I mentioned earlier, the Guard soldier is always ready, always there; likewise, to play on a theme, we desire that our Nebraska soldiers always retire and always here. I urge you to vote for one of these bills out of the committee to the floor of the Legislature for consideration. I'd be happy to answer any of your questions. [LB69]

SENATOR DIERKS: Thank you, sir. Questions? No questions. Thank you very much for coming. [LB69]

CRAIG STRONG: I hope to see you, many of you tomorrow; we're having...the National Guard Association will have a legislative breakfast tomorrow, so thank you. [LB69]

SENATOR DIERKS: Thank you. Next proponent, please. [LB69]

LEO KREIFELS: Good afternoon, Chairman Cornett and members of the Revenue Committee. I am Chief Master Sergeant Leo Kreifels, K-r-e-i-f-e-l-s. I'm a current member of the Nebraska Air National Guard; born and raised in Nebraska. I want to stay here. And I've also been in the military for over 36 years now, and I've served in the state of Nebraska as a National Guardsman for the past 29 years. And my purpose of being here today is not to reiterate any of the points that were made, but to give you a perspective from someone that intends to retire to another state. I'm providing my testimony, basically, today on the decisions that my wife and I have made to move out of the state of Nebraska based on the fact that, frankly, we want to retain as much of our income in retirement as we can, for the best quality of life that we can provide for ourselves. And we don't see that we can do that in the state of Nebraska. Not only do other states have lower real estate and property taxes, but they do reward their military with incentives on their retirement income and taxation. And so our decision started over ten years ago. About five years ago we found some property. We purchased that property, spent a considerable amount of money in developing that property and getting that ready for starting our new life. And so over the past five years we've spent 2-4 weeks in another state, spending our money in the local communities there, that we could very well be spending here. That money...we have discussed with several of our friends who have also retired to other states, out of Nebraska, and one of the things that we continuously try to understand is, why does the state of Nebraska seem to think that they can't afford to provide some kind of relief for its retirees? When I look at the number of other states that are providing some kind of relief, I can't believe that all of those other states are not providing good education, good roads, and good services for their people. It seems to me like we could be...possibly, and I'm sure you probably have

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Transcriber's Office

Revenue Committee
February 04, 2009

already done this, discussing those options with other states--how they go about doing it. And I'm not an expert, but I would think that there is a way that Nebraska could make some concessions in areas or generate other income to make up for what we're talking about here today. Also, I would think also that it...points that have already been made, that the state is going to reap greater benefits in the passage of one of these bills in keeping the larger number of skilled leaders and professionals that we have in our National Guard in the state of Nebraska. Here again, you won't have to spend additional money on that individual to be trained, in many cases. So you're saving money in education of that person, as they're already trained and skilled. And of course, our retirees are between the ages of 40 and 55; they definitely have the capability to work for another 15-20 years, as I intend to. Not because I have to or want to, it's because I want to continue to work. And I'd much rather be doing that in the state of Nebraska. So really, I believe that providing a incentive for our military people to stay in the state, you're going to increase the revenue for the state. And that's basically what I have to say today. Thank you for your time. [LB69]

SENATOR DIERKS: Thank you, Sergeant Kreifels. Does anybody have questions?
Senator Adams. [LB69]

SENATOR ADAMS: I'm not sure it's as much a question as it is a comment, but I may turn it into a question. [LB69]

LEO KREIFELS: Sure. [LB69]

SENATOR ADAMS: First of all, I wish you wouldn't leave the state. In your comment you made reference to, are our schools better than theirs; are our roads better than theirs? If you look just at our neighboring states of Iowa and Kansas, they can't cash flow right now. They can't finish out their budget year, let alone look down the road at their next budget in education and roads and all those kinds of things. So we may ultimately have better schools than they do. But anyway, the question I was going to ask, and you don't have to answer it: what state are you going to? [LB69]

LEO KREIFELS: Missouri. [LB69]

SENATOR ADAMS: Thank you. [LB69]

SENATOR DIERKS: Any other questions for Sergeant Kreifels? Senator Hadley. [LB69]

SENATOR HADLEY: Just one quick question. I assume part of the Air Guard or the National Guard funding comes from the state of Nebraska, is that correct? [LB69]

LEO KREIFELS: We get very little funding from the state of Nebraska. [LB69]

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

Revenue Committee
February 04, 2009

SENATOR HADLEY: Okay, because I wondered if, you know, when we look at cuts... [LB69]

LEO KREIFELS: Our funding is mostly federal. [LB69]

SENATOR HADLEY: Federal funding, okay. One last comment that I would make is that one of the states that I'm familiar with is South Dakota, that does not have a state income tax. So when you say that five states do not tax retirees, I think there is, what...maybe Mr. Lock knows...there's about seven or eight states that don't tax anybody, for income tax. So if you take the five plus the seven or eight, you've got 13 states. And lastly, when you talk about schools: South Dakota doesn't have an income tax and their schools rank 49th; their teacher pay rate is 49th in the country. The only reason it doesn't rank 50th is Mississippi. [LB69]

SENATOR DIERKS: Other questions? Senator White. [LB69]

SENATOR WHITE: It's just a comment, because right now California had to issue IOUs for state tax refunds. They don't have the money to pay the citizens they owe them. Thank you. [LB69]

SENATOR DIERKS: Thanks for coming, Sergeant. I appreciate your testimony. Other proponents, please. Anyone else in support? Opponents? Anyone in opposition to LB69? Seeing none. Neutral testimony? Would you like to close, Senator Cornett? [LB69]

SENATOR CORNETT: I will close on LB69, and most of the...if anyone actually testifies on LB70, then I will waive closing on LB70. Four years ago--five years ago now--when I came to the Legislature, the Revenue Committee was made up of everyone that said no to this bill originally. Through testimony, it was found out that we are in a unique situation when it comes to our military retirees, that we do not face with anyone else or any other segment of population in this state. Nebraska is always incentivizing businesses for jobs: to bring jobs and to bring people to the state. Through testimony, we learned that we have the jobs; we don't have the people. The gentleman from BAE Industries, who is a defense contractor, got up and said that he has 40 jobs open between \$65,000 and \$75,000 right now, currently. That's \$2.8 million just in salaries. Five years ago, the number of jobs that were open were somewhere around 300, in that pay range, for all of the industries. And they could not find people to work...through job fairs, through recruiting. And this committee sent out a bill to incentivize just military retirees returning to the defense field, because of those job openings. While I agreed to that bill and had it put on the floor, because I wanted the issue out on the floor, I don't necessarily agree with the underlying premise. Because that cuts out the doctors that are retiring; it cuts out the dentist. Creighton Dental School came in and testified that they can't hire dentists to teach and to please pass this bill, five years ago, because it

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

Revenue Committee
February 04, 2009

would help them as a recruiting tool. Senator Hadley, you bring up what BRAC is and what people look at, or what the federal government looks at for BRAC. They look at a number of things. It's a waterfall, from the most important down to the bottom. And really, when it comes down to it, when we're competing against the other states we have basically all the same things--until you start getting down to the smaller details. Or when I don't really say smaller details, but things that are a little lower on the priority list. And one of the things is community support. And under community support is taxation and how we treat our military. One of the things they look at, Senator White, is how we treat our injured vets and the rehab available. Whether they bring new missions to the state or not. And I know that you had a bill in regards to rehab of veterans. That is one of...they go that far. They look at rehab; they look at education; they look at infrastructure; they look at base encroachment; they look at legislation in regards to how we protect our base; they look at housing. We are on the final list, or the list, for the Cyber Command and Nuclear Strike Command. What can we do to remain on that list? We're talking about more than a quarter billion dollars of revenue just from those two missions. We're not talking about the family members that would be brought here, the children to go to our schools, the property that would be purchased. I'm not...I don't actually remember who made this, but someone made the comment, basically, why would we want to attract people that make this much money to the state? Why are we trying to attract them? Honestly, because we can tax them. Their income that they're going to be generating at these jobs are more than we are currently taxing them. Most of the people that are stationed at Offutt aren't Nebraska residents. They don't pay Nebraska taxes now. Only if we keep them will they be paying taxes. And how do we go about finding a way to broaden our tax base? With that I'll open on LB70. [LB69]

SENATOR DIERKS: Okay, I think that I should note that we had three letters in support, for the record. One of them is from the Nebraska Economic Development Association; one of them was from the Greater Omaha Chamber of Commerce; and one is from Disabled American Veterans. Go ahead, Senator Cornett. [LB70]

SENATOR CORNETT: Good afternoon, Vice Chairman Dierks and members of the Revenue Committee. Again, my name is Abbie Cornett, and I represent the 45th Legislative District. And I'm here before you today to introduce another military retirement bill, LB70. This bill differs from LB69, which is still...in that there would be a deduction of \$24,000 per military retiree on their state income tax. If it would be a couple that was retired from the military, both would qualify for the deduction; the limit would be \$48,000. This bill is an economic development issue which affects all industries, not just the defense industry. We are in need of doctors, teachers, and many other professional positions. We are competing with 49 other states for these retirees. This bill is based on what Colorado currently has in place. Colorado is, you heard in earlier testimony, is one of our largest competitors for both missions and people. While I don't like comparing us to other states, it will make us more competitive for one of our largest industries. I just want to point out we're still looking for employees, which have

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

Revenue Committee
February 04, 2009

training and technical skills, in all areas of economic development. With that I would be happy to look at an amendment to make Nebraska...I have an amendment drafted but it's not quite ready to go...to make Nebraska competitive with our nearest neighbor, being Iowa. It would be a \$12,000 exemption, and it would be, I'm assuming, approximately half of the current fiscal note listed on this bill. So I'm roughly saying about \$7 million. With that I'll be happy to answer any questions. [LB70]

SENATOR DIERKS: Questions for Senator Cornett? I think not, thank you. [LB70]

SENATOR CORNETT: And I waive closing. [LB70]

SENATOR DIERKS: Okay. First proponent, please, for LB70. And while...is there a proponent for LB70? Is there an opponent for LB70? Is there a neutral testimony for LB70? And Senator Cornett waives closing; that ends the hearing on LB70. Short and sweet. Thank you for your participation. [LB70]

SENATOR CORNETT: Good afternoon, Senator Nordquist. You are recognized to open on LB303. [LB303]

SENATOR NORDQUIST: Thank you, Madam Chair and members of the committee. My name is Jeremy Nordquist and I represent District 7 in Omaha, here today to open on LB303 which would phase out state income taxes on benefits received under the federal Social Security Act. The bill proposes an income tax exemption for Social Security benefits that grows from \$15,000 per individual in 2009 to \$75,000 beginning in 2013. Exemptions would be doubled for couples filing jointly. Madam Chair, many of Nebraska's seniors are struggling to make ends meet, as you know. By taking a cut of their Social Security checks, we're not making life any easier for them. Nebraska is only one of five states in the nation that offer no Social Security benefit exemption from state income tax. Of the 41 states with income taxes, Wisconsin became the 27th to end all state taxes on Social Security benefits last year. Our neighbors, Iowa and Missouri, are completing their phaseout of Social Security over the next few years. That number will then grow to 29 states which have complete exemptions. Of the seven neighboring states of Nebraska, none currently tax Social Security benefits to the same extent that we do. Nebraska's on the wrong side of this national trend and it's costing our local economies. Our taxation of Social Security and other pensions has, by some projections, chased out well over 5,000 Nebraska seniors. Their income, which could total as much or more than \$100 million, is money that would be spent in businesses and in our stores on main streets in towns like Seward, Minden, Chadron, and Hastings. I'm sure there will be questions about how we make up this lost revenue. And as a member of the Appropriations Committee I am well aware that we are in serious financial times. However, we must have a larger discussion over the coming years about Nebraska's tax climate for our retirees and seniors, much like the ongoing discussion we have about Nebraska's business tax climate. A recent study by Kiplinger

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

Revenue Committee
February 04, 2009

determined Nebraska ranks 41st in retirement tax climate. That puts us behind every single Midwestern state, including all of our neighbors. When the Legislature learned that Nebraska was struggling to keep up in business climate we took action, and according to the Milliken Institute we have the third lowest cost of doing business now. Forbes magazine puts us in the top ten states for doing business. So I ask this committee whether or not we should give the same focus and attention to our tax climate for retirees. I'm confident that we can improve the quality of life for Nebraska seniors and increase economic activity on main streets throughout our state. Thanks for your time and I would appreciate your consideration of LB303. [LB303]

SENATOR CORNETT: Thank you, Senator Nordquist. Any questions from the committee? Seeing none; oh, I'm sorry, Senator Louden, I didn't see you. [LB303]

SENATOR LOUDEN: Thank you, Chairman Cornett. Senator Nordquist, just so I get this straight now; what you're exempting is the gross income--is that what you're exempting, or are you exempting the gross amount of their retirement income? [LB303]

SENATOR NORDQUIST: It would exempt their Social Security benefits. [LB303]

SENATOR LOUDEN: Okay, just their Social Security benefits? [LB303]

SENATOR NORDQUIST: Yeah, yeah. [LB303]

SENATOR LOUDEN: It wouldn't be added into their gross income? [LB303]

SENATOR NORDQUIST: No, it would just exempt their Social Security... [LB303]

SENATOR LOUDEN: With other benefits? [LB303]

SENATOR NORDQUIST: Yep. [LB303]

SENATOR LOUDEN: How many people are making \$75,000 a year in Social Security? [LB303]

SENATOR NORDQUIST: Well that's...not very many. And as you can see by the fiscal note, there's a dramatic impact on the first phase because most of the people, or everyone, is in that small bracket; that first \$15,000 we exempt. And then as you go up, less and less people are covered. So that's why this bill has such a dramatic cost up front. And I'm certainly not married to how this is phased in over time; I'm just married to the general concept that we need to give a break to our seniors on Social Security. So if the committee wants to make this a 10-year phase in and start real small...maybe just start by exempting the first \$1,000 or \$2,000; that would allow you to grow it over time. So it's a concept I want to put out there. I know, like I said, we're in tough times, and

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Transcriber's Office

Revenue Committee
February 04, 2009

maybe this needs to...this discussion is a start that needs to be put off a little bit here. But I just wanted to bring it to the committee and see if we can continue this dialogue about the tax climate for our seniors. [LB303]

SENATOR LOUDEN: Is there any way here that we can calculate if you had a thousand dollar deductible, what the fiscal note would be? [LB303]

SENATOR NORDQUIST: I don't have that number but I'm sure fiscal and the Department of Revenue could get us some numbers on that. [LB303]

SENATOR LOUDEN: Okay. But it isn't in these numbers here? [LB303]

SENATOR NORDQUIST: No, no. [LB303]

SENATOR LOUDEN: We can't calculate it? [LB303]

SENATOR NORDQUIST: And, yeah, and in FY2009, that first \$15,000 exemption is going to cost us \$62 million, and then when the bill's fully implemented, it's only going to go up to \$76 million. [LB303]

SENATOR LOUDEN: Only? What, do you want to work for the U.S. Government or something? [LB303]

SENATOR NORDQUIST: Yeah, sure (laugh). That's right, that's right. When you're talking millions and millions, it adds up to big money after a time, but it's that first chunk that is the biggest. So maybe we change the numbers and look at a smaller phase in over a longer period of time; something to talk about. [LB303]

SENATOR LOUDEN: Okay, thank you. [LB303]

SENATOR NORDQUIST: Yeah, thank you. [LB303]

SENATOR DIERKS: Senator Hadley. [LB303]

SENATOR CORNETT: Senator Hadley. [LB303]

SENATOR HADLEY: Senator Cornett, Senator Nordquist. Is the Social Security exempt from federal income taxes? [LB303]

SENATOR NORDQUIST: I don't believe so. I don't know, no. [LB303]

SENATOR HADLEY: I don't believe it is. I guess when...what would be the rationale that we should exempt it from a state income tax that wouldn't be a good rationale for

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

Revenue Committee
February 04, 2009

exempting it from a federal income tax? Does that question kind of make sense? They want to consider it taxable, why would we consider it not taxable? [LB303]

SENATOR NORDQUIST: Sure, sure. Well, but I would kind of look at the competitiveness factor: that we are losing Nebraska seniors from small towns throughout our state, and I think we need to look at retirement income, the climate we have, and the tax climate we have for retirees in the state, much like we do the business tax climate. So we need to look at our competitiveness with other states, and that's why I brought this bill. And as the youngest member of the Legislature, I don't necessarily have a vested interest for a while except moving Nebraska forward. [LB303]

SENATOR HADLEY: I don't have to declare a conflict of interest, do I? [LB303]

SENATOR CORNETT: No sir, you do not. (Laughter) [LB303]

SENATOR HADLEY: I mean, I hate to give my age away, but... (Laugh) [LB303]

SENATOR CORNETT: Senator White. [LB303]

SENATOR WHITE: Senator Nordquist, will you find the \$67 million out of your Appropriations budget to fund this this year? [LB303]

SENATOR NORDQUIST: Well, you know, if it's the purview of the Revenue Committee to move that forward, I'll start digging and we'll see what we can come up with. (Laughter) [LB303]

SENATOR WHITE: Well, I mean, you'll have to, right? [LB303]

SENATOR NORDQUIST: I know, yeah, absolutely. [LB303]

SENATOR WHITE: And you're willing to do that? [LB303]

SENATOR NORDQUIST: And like I talked to Senator Loudon, it is...that first year is the biggest hit and maybe, like I said, we needed to have a discussion on this and maybe look at moving that exemption to a smaller amount. Maybe start with \$1,000 or \$2,000 exemption which significantly reduces the amount of the bill, but... [LB303]

SENATOR WHITE: But if we pass this out on the floor like this, right now, you'll find the \$67 million in the budget? [LB303]

SENATOR NORDQUIST: If the bill passes, we have to. [LB303]

SENATOR WHITE: Okay, thank you, Senator. [LB303]

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Transcriber's Office

Revenue Committee
February 04, 2009

SENATOR NORDQUIST: Thanks. [LB303]

SENATOR CORNETT: Seeing no other questions. First proponent. [LB303]

JOHN JENSEN: (Exhibit 11) I'm John Jensen, J-o-h-n J-e-n-s-e-n. Senator Cornett and members of the committee, I live in Omaha at 3705 North 114th Avenue. I am treasurer of the retired members of the Nebraska State Education Association, NSEA-Retired, and I'm here representing over 4,250 retired members of the NSEA. Some of them are in this room, so if they could just kind of wave their hands. My testimony will refer to both LB303 and LB538, with the promise that my testimony on the second bill will only be to sign in so I will not keep you longer. My testimony will reference some data that's being handed out to you involving school, state, county, state patrol, and judge retirees. These data do not include local police and firefighter retirees, nor military or other federal civil service retirees. I would have included the additional data if I had them. I also did not include the retirement benefits from the railroad retirement because they're already 100 percent exempt. The three handouts: a PowerPoint from Roger Rea, president of NSEA-Retired; my abbreviated version of the PowerPoint; and a spreadsheet showing the economic impact to Nebraska, county by county, of pension payments made to school, state, county, state patrol, and judge retirees. Roger Rea is in Washington, D.C. today lobbying on the economic stimulus bill before the Senate, and that is why I am here. So moving on, key facts about retirement income for the public retirees--this is December 2008 data--17,000 retirees, 14,000 from the state and 3,000 from Omaha; total pensions \$29 million per month paid, \$389 million paid out each year. These payments create about 4,000 jobs in Nebraska, and they create these jobs in virtually every county in the state. 89.5 percent of the pension income stays in the state of Nebraska. Seven states do not have state income tax, so that's automatic there; two states only apply income tax to interest and dividends; 41 states do have a state income tax but 27 of those, and the District of Columbia, provide a full exclusion from Social Security income. Wisconsin was added to this list in 2008. What 14 states that tax Social Security, how do they actually tax that? Three states add the untaxed Social Security benefits to the AGI to determine income exclusions; that includes our neighbor of Colorado. Six tax Social Security above an income floor, and that includes Iowa and Missouri. And by the way, those two states are phasing out to 100 percent their exclusion of Social Security income and pension income. What about state pension taxation? Ten states exclude all federal, state, and local pension income from taxation; four states allow no exemption or tax credits for pension or retirement income; Nebraska's one of those four states. The others, New Mexico, Rhode Island, and Vermont; but even New Mexico, one of those four states, they get to exclude \$8,000 once they hit the age of 65. There's been recent developments around the country on taxation of retirement benefits--of Social Security and pension income. Kansas: exempt Social Security if the AGI is less than 75,000; Iowa: phase it out entirely by 2014; Missouri: phase it out entirely by 2010. Retirement income exemption increased how

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Revenue Committee
February 04, 2009

much you can take and exempt from pension income: Missouri exempts \$6,000, full exemption by 2012; Georgia exempts \$35,000; Idaho: \$25,000 and change, and \$38,000 and change for joint returns. These are recent developments. Kentucky: exempt \$41,000; Michigan: \$42,240. If you look at our contiguous states, our real competition, Nebraska--first and foremost--no exemptions on either one. Iowa: pensions \$24,000 and \$32,000 will be exempt in this year, 2009; Social Security partial exemption phased to 100 percent by 2014. Missouri: pension income phased from 20 percent to 100 percent by 2012; Social Security 100 percent exempt by next year. Kansas: pensions 100 percent exempt if it's a Kansas pension, none for out of state; Social Security a partial exemption, again if your AGI is less than \$75,000. Colorado: pensions exempt up to \$24,000--a pension income at age 65, and up to \$20,000 if you're less than age 65; Social Security, 100 percent exempt. South Dakota and Wyoming, of course, don't have income taxes so there's no tax there. What does that mean? By 2014, only Kansas and Nebraska will tax Social Security income, and Kansas will exempt everything if your AGI is less than \$75,000. I believe that would cover a vast majority of school employees who are retired. By 2014, only Nebraska, Colorado, and Iowa will tax public pension income, and Colorado and Iowa will provide an exclusion of \$24,000 or more. I want to turn to the economic impact; you've heard a lot about that today. I want you to assume that the average retirement income is about \$20,000 per person--actually it's a little less than that. In 2007, there were 4,000 and...I forgot something here, I better go back. There's a graph on the prior page. It shows that our retirees from our public pension funds do leave the state. It doesn't give a reason, but this is from census data. The black line on the top shows what the ages of Nebraska retirees from public pensions, ages 63-68, what the population would have been if it had been the average of South Dakota, Iowa, and Kansas. The lower line, which is a little harder to see, is the actual. So indeed, when you compare it to the average of South Dakota, Iowa, and Kansas we are losing retirees to other states. In fact, if you look at the last part of that, there's about a 5,000 difference there; and if you take the 5,000, those missing Nebraskans, it's somewhere around \$90-100 million in lost income to the state of Nebraska. Lost income means lost economic growth. A quote from Missouri's governor Blunt when he signed the Missouri bill a couple of years ago: Social Security and public pensions were intended to keep our elderly and disabled citizens out of poverty. They were never intended to be a source of revenue for the states. In 2008 Congressional testimony, Mark Zandi, chief economist and cofounder of Moody's Economy.com, testified that the top two methods to create the biggest bang for the buck from the House economic stimulus legislation was one, food stamp payment increases; and two, extending unemployment insurance. It's really a no-brainer to figure out why. In both those cases, the added income to these individuals would be immediately spent in the economy and provide an immediate growth, a bang for the buck, for that local economy. Now if you look at our public pension income average, it's just under \$20,000. Social Security average, I think, is less than that. It's probably closer to a \$12,000 average. Neither of them are that great, and so when you give a small incentive to these people to stay in the state, a little extra income, they will spend it in the economy. The

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

Revenue Committee
February 04, 2009

difference is that this spending will occur in each and every county in the state. One of the things I've provided to you was a spreadsheet. Up at the top are the totals, total annual pension dollars paid annually, and then there's a multiplier effect from that income and what it does to the economy of these different counties you see listed below. And also, the number of jobs that this income produces in these communities. Where did I get the multiplier effect? A couple of weeks ago I was in Chicago talking...giving a presentation on pensions to nine Midwestern states for the National Education Association, and so I got some preliminary figures from these nine states including South Dakota, North Dakota, Iowa, Missouri, Illinois, Michigan, and a few others. And the multiplier effect was for each million dollars in pension income that generated an average of \$536,520 of additional income in multiplier effect income. In addition, for each million dollars of pension income, it produced an average of ten jobs in each of these states. So what I did was, I added the last two columns--how much additional income all this provides for the various counties--and so Senator Hadley from Buffalo County, if you look on here it's a little over \$9 million for the pension payments; generates another \$5 million in additional income, and over 92 jobs. Now again, these figures come from a study on National Institute on Retirement Security. I got preliminary figures; it's going to be published this month. It was undergoing, and probably still is undergoing, peer review. Now, the ability...here's something else that's kind of unique for Nebraska and some of our rural areas in other states...the ability of providing medical clinics and emergency medical services in many rural areas of Nebraska is indeed challenging. In fact, many rural communities spend a lot of effort trying to keep what they have or attract additional services. And indeed, without retired public employees staying in these communities where they have Medicare and they have...in other words, they have insurance; they have steady income, it's going to be spent in those communities; it's going to be used in these medical clinics; it tends to add an incentive for providers of these medical services to stay in those communities and makes it easier for small rural areas to keep and retain new services. In 2007, an article in NCSL Magazine, Ron Snell (phonetic) wrote "The Gold in the Grave: The Economic Benefits of Attracting Retired People Have Gotten State's Attention" (phonetic). Two quick excerpts here: one, and I quote, a Florida study on the importance of attracting retired people put the advantages in a nutshell. Florida's growth depends on its ability to attract mature residents. The retirement industry is clean and its benefits are spread to other high job-creating industries such as hospitality, construction, and healthcare. And the second quote, retiree income is stable and tends to be spent. Retirees buy or build homes; their spending creates new demands for goods and services; they enhance the income, sales, and property tax bases; and they can strengthen community with talent and willingness to volunteer. Their spending may help preserve small town retailers and local health services, and other benefits for the local community. Indeed, there are many reasons that I would love to have you pass LB303 and LB538. I believe that both deserve to be voted out of committee; both deserve to be debated by the full Legislature; and both deserve to be passed and signed into law. Thank you. [LB303]

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

Revenue Committee
February 04, 2009

SENATOR CORNETT: Thank you, Mr. Jensen. Questions from the committee? Senator Hadley. [LB303]

SENATOR HADLEY: Just one quick question. You know, I was just thinking, which could be dangerous, but you know, there are...we're just looking at Social Security right now and the tax impact on that, but how do we...is there any comparison of other breaks we give elderly, and especially lower income, in Nebraska versus other states? For example, we have a homestead exemption. I don't know--does Colorado, South Dakota, Iowa, and such as that, do they...I think what...I guess my point is if we carve out just one area and look at it and make comparisons to other states, it can lead us down a different path if we don't look at all the exemptions that say a 65- or a 70-year-old person gets because of their age. And I guess I'm asking, do you know how we stack up in Nebraska for other type of exemptions for the retired? [LB303]

JOHN JENSEN: Senator, I don't know about the homestead exemption. I believe there will be another person that will know about it that will come up. I do know that Nebraska is one of the few states where virtually none of the school retirees have any post-retirement health benefits; zero. And in many, many other states public employees, school employees that are retired have health benefits partially or fully paid. I'm under 65, my wife is under 65; I'm paying about \$12,000 a year for my health insurance. You go to many other states and they pay half of that or a third of it or none of it. If you look at all this data that I gave you comparing Nebraska to other states, and then you throw in the healthcare, it certainly appears to me that Nebraska is not very friendly to its retired citizens. [LB303]

SENATOR CORNETT: Senator Adams [LB303]

SENATOR ADAMS: The next bill is probably where I ought to be more specifically making this comment, but given that we've kind of co-mingled them and you're here now and may not come back up, a couple of observations--three. First of all, this would be great if teacher retirement got an exemption; I'm going to call my wife and let her know. That aside, we hear constantly about our retired citizens leaving Nebraska and going elsewhere, and correct me if I'm wrong, but as you were describing that dilemma, we really don't have any way, do we, or you didn't have on hand today any means of actually segregating and quantifying exactly why they're leaving. [LB303]

JOHN JENSEN: I don't have that information. [LB303]

SENATOR ADAMS: If I asked my wife right now if we're going to leave, it's because of grandbabies and where they're located, but that's our issue. Or it may be because of sunshine and heat and we go through that right now at our house. So we can't really, definitively say that it's our tax structure in Nebraska that's pushing people away. It could be. It may be coupled with other things that are more...for whatever reason--family

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

Revenue Committee
February 04, 2009

reasons or whatever. The other thing that I wrestle with, and this is personal with me, but I'm going to lay it out here. I made my living off of tax dollars as a teacher for 31 years. And so for me personally, though I'd like to have a break on my teacher retirement benefits, I sit there and say, geez, I made a living on other people paying their taxes; that's where my salary came from. So it gets...for me it's more complicated than just a break. So I haven't asked a question but you gave me an opportunity to make a comment. Thank you for your testimony today. [LB303]

SENATOR CORNETT: Senator Louden [LB303]

SENATOR LOUDEN: Yes. When we look at this bill, and I agree with Senator Adams that when you talk about some of this piece of paper you have with it, up in Colorado or something like that, and I'm pretty close to Colorado and any time I can go to Colorado it's young people that's going to Colorado and the old folks are going farther south because nobody wants to retire in Colorado because there's nothing but people over there. So I'm wondering, you know, how you can compare Colorado because the cost of living is considerably higher. Now, when you get your Social...when you're talking about this, what is the tax rate on your Social Security? How much money would you be saving if you waiver the tax on it? [LB303]

JOHN JENSEN: Senator, there's a formula, and for low-income individuals they basically don't pay any federal income tax on their Social Security. As your adjusted gross income increases, the maximum that you will be taxed on is 85 percent of your Social Security income. But that doesn't occur until after...there's like a \$32,000 exclusion of adjusted gross... [LB303]

SENATOR LOUDEN: But what is the state portion of that? [LB303]

JOHN JENSEN: Pardon? [LB303]

SENATOR LOUDEN: What is the state portion of that, when you say that 85 percent; what percentage is the state portion of that? [LB303]

JOHN JENSEN: It's the same. [LB303]

SENATOR LOUDEN: Yeah, it...but I mean, okay...you're paying... [LB303]

JOHN JENSEN: If I have to report... [LB303]

SENATOR LOUDEN: ...3 percent on \$85,000; is that what you're telling me? [LB303]

JOHN JENSEN: Well the state income tax rate on that, it depends on the individual's adjusted gross income and Nebraska, if you look at it, it starts off fairly high, like 3

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

Revenue Committee
February 04, 2009

percent, and quickly goes up to 6-7 percent. Nebraska has a progressive income tax but it starts off fairly high and much more so than other states. So it would be somewhere between 3 and 6 percent, I would guess, on average. [LB303]

SENATOR LOUDEN: Okay that's what I was wondering, what the significant number would be but those on the lower end of it don't pay that much. We're not all blessed like Senator Adams is with his 85 deal. (Laugh) Thank you for your testimony. [LB303]

SENATOR CORNETT: Senator Utter. [LB303]

SENATOR UTTER: Thank you for coming and testifying today. I've been sitting here now all afternoon, and I haven't said a lot this whole afternoon and I will be troubled as we go down the road in the next few days hearing many more bills that have similar implications to these. We talk...and every one of these bills, by the way, I think is...there are good reasons. There are good reasons to exclude military benefits from taxation. Our daughter is married to a career military man that is currently serving in Iraq and he's going to be retiring one of these days, and certainly anything we could do to attract them back to Nebraska and get our grandkids closer to home would be a benefit. The exemption of Social Security benefits from taxation kind of appeals to me because I, as one of you, you know, that has some appeal to me. The sum total of what we're talking about today is probably somewhere in the...or at least when we finish here today will be somewhere in the neighborhood of \$150 million. And assuming that we can't find \$150 million of cuts to make in the state budget, that means that we're going to have to tax somebody. And the question that bothers me is who are we going to tax? Who's going to be left to tax after we grant these exemptions? And I just...can you give me some help in that regard? Where should we go to get this money, to...after we've pared state spending to the bone it appears to me that we're still going to have a deficit, and I just want to know whose ox do we gore in this situation to keep the revenues at the pace they need to be to cover the expenses? [LB303]

JOHN JENSEN: Well, first of all, I think the Revenue Committee has the ability to change these so that the fiscal impact can start off significantly lower than what I have in these two bills. And by the way, these two bills--LB303 and LB538 would include the military that was in LB69 and LB70. The only thing I can say, and I don't want to tell you what your job is, is stay away from education; my wife would kill me. (Laughter) [LB303]

SENATOR CORNETT: Seeing no further questions, thank you, Mr. Jensen. [LB303]

JOHN JENSEN: Thank you. [LB303]

SENATOR CORNETT: Next proponent. [LB303]

HERB SCHIMEK: Madam Chairman, members of the committee, my name is Herb

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

Revenue Committee
February 04, 2009

Schimek, that's S-c-h-i-m-e-k, representing the Nebraska State Education Association in favor of these two bills. These bills are not new to this committee. This is probably the third time around for the bills. I notice the fiscal note, and these bills usually have death by fiscal note, and that's what's happening again today. If I had to say where we get the money, I could say this committee put us in hock about \$4 billion, probably, on the 775 economic development type things. We don't even know how far in debt we are in that area. And if you can do that for business, maybe you ought to do it for your own citizens. That's my testimony. [LB303]

SENATOR CORNETT: Senator Friend. [LB303]

SENATOR FRIEND: Mr. Schimek, I guess the question for you is we have a variety of exempt classes from income tax. Our sales tax code is chock full of hundreds of exemptions. A few years back, about the time that I probably met you, we had a \$700 million shortfall. We made about \$350 million worth of cuts and we increased taxes to the tune of \$350 million. Are you afraid if you become one of the...well, I shouldn't say you; are you afraid that if this bill forces another exempt class that there's a target on that class's back? Because when they went...when we as a Legislature went in to try to find that money, they grabbed a bunch of sales tax exemptions and said, game over--you don't get a sales tax exemption anymore. Suddenly...I mean, are you a little bit worried that once this happens there's a target on your back? [LB303]

HERB SCHIMEK: There's nothing wrong with having to defend an exemption about every three or four years. I think that's good policy. We have exemptions, as you know, bull semen, and all kinds of things like that. Defend it: it shouldn't go into perpetuity. [LB303]

SENATOR FRIEND: Thanks. [LB303]

SENATOR CORNETT: Any further questions from the committee? [LB303]

HERB SCHIMEK: Thank you for your time. [LB303]

SENATOR CORNETT: Seeing none, thank you. Next proponent? [LB303]

LEATHA JOHNSON: (Exhibit 12) Good afternoon, ladies and gentlemen. My name is Leatha Johnson, that's L-e-a-t-h-a J-o-h-n-s-o-n, and I'm a board member and client of the National Multiple Sclerosis Society. And my testimony is purely from a personal perspective. I don't have numbers to give you or jobs to offer the state, but the MS Society supports LB303 because many persons living with MS receive Social Security disability benefits. And a lot of us fall through what, you must admit, are some cracks in our system. Our income is too high to qualify for Medicaid benefits or for the existing breaks on income tax on our Social Security, but it's not quite high enough for us to

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

Revenue Committee
February 04, 2009

comfortably pay our Medicare premiums, our copays, and our living expenses all in one fell swoop. And I personally have yet to find an insurance company that will offer the Medicare supplemental policies to people with disabilities. When a person is diagnosed with a chronic illness--you know mine is MS, there are several others out there--unfortunately, it's sort of like you get hit with a triple whammy. First of all, you reach the point where you're unable to work. So your income is significantly decreased. Your medical expenses increase, for some of us, a lot. And in Nebraska, we still have to pay state income tax. And again, since most of us do have very high medical costs, the amount of tax we pay does create a hardship. We face on a monthly basis the kind of balancing act that you now face with the budget: if I pay this, what do I have to give up? And it also creates stress for us, which our doctors tell us we're supposed to avoid if we have a chronic illness. So exemption, on an individual basis for us, exemption of our Social Security income from income tax would certainly help. Thank you. [LB303]

SENATOR CORNETT: Senator White. [LB303]

SENATOR WHITE: Ma'am, I appreciate your situation; several family members have MS. You understand that one of the things that might be cut, would probably necessarily have to be cut should this bill become law, is the amount of money we pay on various Medicare/Medicaid benefits. This state does tend to pay more than most in some areas. Do you still believe, if that's necessary--along with schools and roads, because the three big budget items that we face are Health and Human Services, schools, and roads--so would you still want this passed if that means we must, because we have no other choice, cut back on the benefits we pay for people in your situation and others with serious medical conditions? [LB303]

LEATHA JOHNSON: What I don't know, in order to answer your question, sir, what I don't know is how much of the Medicare benefit is paid federally and how much of it is paid on the state level. I don't know that. And again, it's still going to be the balancing act... [LB303]

SENATOR WHITE: Yes, ma'am, it really is. [LB303]

LEATHA JOHNSON: ...you know, that you have to face as well as we do. And I understand that, certainly. [LB303]

SENATOR WHITE: Thank you. [LB303]

LEATHA JOHNSON: Thank you. [LB303]

SENATOR CORNETT: Seeing no further questions, thank you very much. [LB303]

LEATHA JOHNSON: Thank you. [LB303]

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

Revenue Committee
February 04, 2009

SENATOR CORNETT: Are there any further proponents? Are there any opponents to the bill? Is there anyone here to testify in the neutral capacity? [LB303]

MARK INTERMILL: (Exhibit 13) Thank you, Senator Cornett. My name is Mark Intermill, that's M-a-r-k I-n-t-e-r-m-i-l-l, and I'm here today on behalf of AARP testifying in a neutral position on this bill. This was a difficult call for us to make. We certainly support the concept of providing an exemption for Social Security income. Just to give you some background on the taxation of Social Security, it was started in 1986 as a means of providing some additional funds for the Social Security trust fund which was almost out of money at that point. So there was taxation for persons with income...single persons over \$25,000 in income--that meant half of their Social Security benefit was taxed, and that money went into the Social Security trust fund. In the '90s when we needed to shore up Medicare that threshold was increased; there was a little bit higher threshold and I can't recall off the top of my head what that was, and 85 percent of the benefits for those persons at that higher threshold were taxed. And the difference between 50 and 85 percent went to the Medicare trust fund. So the federal government has used the taxation of Social Security to shore up Medicare and Social Security. As a result of Nebraska's income taxation system being linked to the federal system, Nebraska realized a windfall. Other states took a look at that and all but five have, who collect income tax, have now stopped that practice. They are exempting either a portion or all of Social Security income from state income tax. What we see at AARP is that Nebraska is one of the least retiree friendly states in terms of taxation. We've got the Social Security taxation, taxation on other pension incomes that tend to be in a group of about five states where we see that we are the only states that provide that taxation. We also see a property tax. AARP Public Policy Institute's done a study that shows that we are in the upper quartile of states in terms of property tax burden. And what we have found is, I think Senator Hadley asked about the property tax relief programs, all of the states ahead of us have property tax relief programs that were not figured into that tax burden. So we're probably squarely in the top ten in terms of tax burden for people over 65. The reason why we're not supporting this bill is something that's been alluded to by members of the committee. You know, we're in tough times here and it would be difficult to find the resources to be able to do something that we would desperately like to do for Social Security beneficiaries. What we are suggesting, and I think somebody alluded to the...this is, I think Mr. Schimek mentioned that this is not the first time this issue has come to this committee. What I would like to see is the committee take it upon itself to study this issue thoroughly; to take a look at property taxes, the homestead exemption issues, the Social Security issues, the other pension programs...to look at how we tax those items and see what those impacts are on retired persons. There's been mention that there are about 5,000 people who have left the state who are between the ages of 62 and 68, and I have to admit that I am the source of that information. We looked at census data at AARP. They collect population estimates every year by single-year age groups, and we looked at each of those single-year age groups to what the change has

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

Revenue Committee
February 04, 2009

been and then compared it to states that we felt were similar to Nebraska geographically, demographically, economically. South Dakota, Iowa, and Kansas were the states we selected. We found that our growth rate for people at the age of 66, the age of 67, and 68 were less than those other states. Those are the new retirees; those are people who have just qualified for full Social Security benefits. The rate was about 5,454 people that we figured we would have had if we'd run at the same rates as those other states. Nebraska's average per capita income is \$36,189. Since we're talking about a group that has income of at least \$25,000 for a single person, that's probably a fair estimate of income. Of those 5,454 people, \$200 million that's missing from the state's economy. So again, we think this is a topic that is deserving of your consideration. We're just not prepared to say that this is the time to do it, but we would like to see progress made towards that end. [LB303]

SENATOR CORNETT: Thank you, sir. Seeing questions from the committee; Senator Hadley. [LB303]

SENATOR HADLEY: Yes, just one question, Mr. Intermill. Thank you for your testimony, I appreciate it. At times there's been a move, at least in the federal taxation area, to even phase out Social Security for higher income to try and get some equity. And I guess that's what concerns me a little bit about some of these bills, that we have people that would be getting the tax break that I'm not sure it would make a whole lot of difference in their lifestyle, whether they get the tax break or not, whereas the lower income could make larger differences. Is that a fair statement in your...? [LB303]

MARK INTERMILL: I think there's a question of balance that has to struck. What other states have done in that regard is put a cap on the income above which you don't get the exemption. And I think some states are, you know, \$75,000 or something like that. So there could be ways of addressing that and making sure that you target those...the benefits to people who may need it the most. So those are the types of questions I think we need to consider and talk about what makes the most sense in terms of tax policy as it relates to retirees. [LB303]

SENATOR CORNETT: Seeing no further questions; thank you. [LB303]

MARK INTERMILL: Thank you. [LB303]

SENATOR CORNETT: Is there anyone else in the neutral capacity? Seeing none. Senator Nordquist, you are recognized to close. [LB303]

SENATOR NORDQUIST: Thank you, members, for your thoughtful consideration today. I know Senator Hadley had a question on, kind of the ranking, and the Kiplinger report that I mentioned looked at tax liability across...average for the state for retirees across income, sales, and property taxes, taking into account exemptions, and Nebraska on

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

Revenue Committee
February 04, 2009

that was 41st. We're the lowest in the Midwest, lowest ranking in the Midwest, and lowest amongst our neighbors. Does not take into account cost of living which would affect that as well, but. I brought this bill to have the discussion. Two years ago we...Legislature passed the largest tax increase in the history of the state and I would imagine eventually, in time, we'll get to that point again, and I want to make sure that this is on the radar screen; that it's considered as a part of that package when we get to that time. I know that time is probably not this year, or next year, but we'll see down the road, so. I appreciate your consideration. [LB303]

SENATOR CORNETT: Thank you, Senator Nordquist. That closes the hearing on LB303. Senator Giese, you're recognized to open on LB538. [LB303]

SENATOR GIESE: Thank you, Senator Cornett, members of the committee. My name is Robert Giese, G-i-e-s-e, and I represent the 17th Legislative District which includes Dakota, Dixon, and Wayne counties in northeast Nebraska. I am here today to testify on behalf of LB538 which would exempt government employee retirement pensions from state income tax. Under LB538, tax payers filing a single return in 2009 would be able to exclude up to \$15,000 in retirement income. If both spouses receive qualifying retirement income, the exclusion would be \$30,000. The exclusion would be phased in over a five-year period, increasing the excluded amount by 20 percent of the final cap each year until the \$75,000 maximum exclusion for single tax payers is reached in 2013. Currently, Nebraska is one of just four states which provide no form of state income tax exemption or tax credit for pension or retirement income. By comparison, of the six states that border Nebraska, two have no state income tax; two exempt pension income to a certain amount; one is currently phasing in a complete exemption of pension income; and one exempts their own state pensions, but not outside pensions, from state income tax. The intent of LB538 is to bring Nebraska back in line with the 37 other states which have some form of beneficial tax treatment on pension income. The fiscal note for this bill paints an exemption of government pensions as a net loss to state revenue, but it ignores the obvious benefits that such an exemption presents to the Nebraska economy. Simply put, retirees spend their income. December 2008 there were 17,863 retirees statewide receiving income tax from government pensions. The income from these pensions totals over \$29 million each month, and more than \$389 million annually. Each additional dollar that is no longer subject to state income tax is a dollar that retirees will likely spend on...will be spending in their local economies...communities, excuse me, buying groceries, paying rent, or property taxes, and yes, even doting on their grandchildren. While these dollars will no longer be subject to income taxes, a significant number will still be subject to state and local taxes right here in Nebraska. Much has been made in recent years about the so-called brain drain, the trend of young Nebraskans leaving the state after high school or college for other states. Our state's treatment of retirement income, from pensions to Social Security, represents a serious incentive for a similar gray drain. When you compare Nebraska and South Dakota, Iowa and Kansas, all states that are economically,

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

Revenue Committee
February 04, 2009

culturally, and geographically similar to ours, Nebraska is lagging in a population growth for the recent retired, ages between 63 and 68. As someone whose district borders both South Dakota and Iowa, I am constantly aware of individuals in the Siouxland area who choose to live in communities just across the river due to more favorable tax policies in these states. There is one amendment which I have submitted to the committee for their consideration. In its current form, LB538 would only exempt pension income from certain state pensions, which are enumerated in the bill. My intent was not to limit the exemption to that particular bill, but rather to include all government pensions. AM78 would address this oversight. I thank you for your time, and certainly would be happy to take any questions. [LB538]

SENATOR CORNETT: Senator Hadley, you're recognized. [LB538]

SENATOR HADLEY: Senator, I appreciate your coming. What is the philosophical base that government employees would deserve this kind of exemption vis a vis the person who works at Baldwin's in Kearney, or works at Eaton's in Kearney, or works at the corner grocery store or something. Kind of the philosophical reason that a government employee...a government pension should be exempt. [LB538]

SENATOR GIESE: My personal opinion is that these employees are the core of what we as Nebraskans stand for: your police, your firefighters, your teachers. And that is what our society and our state, I think, is built on is our core value of employees and that's, in my personal opinion, that's where I'm coming from. [LB538]

SENATOR CORNETT: Senator Dierks. [LB538]

SENATOR DIERKS: You mentioned your neighboring states. South Dakota neighbors my district as well. I know that citizens have gone to South Dakota to license their cars because it's cheaper. When we talk about the sales tax, South Dakota's included sales tax on every service except medicine. How does that equate with Nebraska's sales tax chart? Do you know about that, Bob? [LB538]

SENATOR GIESE: I am not...I don't have that answer for you, Cap, but I would certainly be...maybe someone following me could answer that question for you. [LB538]

SENATOR DIERKS: Okay. Thank you. [LB538]

SENATOR CORNETT: Seeing no further questions. [LB538]

SENATOR GIESE: Thank you. [LB538]

SENATOR CORNETT: You're welcome. First proponent. [LB538]

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Transcriber's Office

Revenue Committee
February 04, 2009

HERB SCHIMEK: (Exhibit 14) Madam Chair, members of the committee, I'll make this short. My name is Herb Schimek, S-c-h-i-m-e-k, representing the Nebraska State Education Association. I'm giving you a chart with additional information on exemptions on pension types and what they are. I think the answer to your question...wasn't Nebraska about half of the items that South Dakota taxes? [LB538]

SENATOR DIERKS: I know we talked about it at one time when Senator Schellpeper was here; he brought a bill that would tax all these things. [LB538]

HERB SCHIMEK: Right. [LB538]

SENATOR DIERKS: I knew at the time what they were, but I just don't remember anymore. [LB538]

HERB SCHIMEK: Yeah. I was thinking it was about half of the total item. I think it was 143 total items that can be taxed. South Dakota does everything except about one, and that's medical. We support this bill basically because we think it's fair; it puts our people in the average of the states that surround us; and these dollars will basically be spent in Nebraska, generating sales and income tax for the state of Nebraska...or sales tax. Any questions? We would hope...excuse me, Senator Hadley. [LB538]

SENATOR HADLEY: Okay. Go ahead; finish, finish. [LB538]

HERB SCHIMEK: I was going to say we would hope that the committee would see fit to study this issue over the interim and really, really look at it as far as sales tax, income tax, retirement, things of this type. It really hasn't had a look at, and I think it'd be very important. Excuse me, Senator Hadley. [LB538]

SENATOR HADLEY: No, that's fine, I appreciate that because that is on my mind also, but I'd appreciate asking you the same question I asked the senator. Philosophically, what would cause us to give a right on a government pension vis a vis a person who worked at Goodyear or... [LB538]

HERB SCHIMEK: I think, historically, public employees salaries were quite a bit less than the private sector for the same educational level and so therefore it was made up on the benefit side. [LB538]

SENATOR HADLEY: Okay. And do you think that's still true, that government... [LB538]

HERB SCHIMEK: It is to...I still think it is, to a degree. [LB538]

SENATOR HADLEY: You still think it's true that basically the state of Nebraska government employees... [LB538]

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

Revenue Committee
February 04, 2009

HERB SCHIMEK: We rank 43rd in the nation on teacher salaries. [LB538]

SENATOR HADLEY: Okay. [LB538]

SENATOR CORNETT: Seeing no... [LB538]

HERB SCHIMEK: Thank you very much for your time. [LB538]

ROBERT L. BUSSMANN: Senator Cornett, members of the Revenue Committee, my name's Robert Bussmann. Robert is pretty easy to spell; Bussman is B-u-s-s-m-a-n-n. I'm the state president of the Nebraska Association of Retired School Personnel. We've heard a number of comments this afternoon about economic security and stability for retired employees, and I will specifically relate retired school employees as being of utmost importance as well as a major concern in present times. The majority of our states, as we've acknowledged this afternoon, have retirement security and stability for their senior citizens, and it is important. They do not tax the benefits that retirees receive from either Social Security or any public pension paid by our retirement system that is guaranteed by state law. Presently this is not true for our state. Taxation of these benefits cuts short that economic security and stability that our state's retired school employees should be afforded for their years of dedicated service. There's been a recent trend of newly retirees to move from Nebraska to other states that do not tax all or some percentage of pension benefits and Social Security. As a result, Nebraska is losing out on the spending of our retirees and not seeing those dollars placed back into our Nebraska economy. For the benefit of our retired school employees, your advancement of LB538, as well as LB303, from committee to allow both bills to work their way through the legislative process with a hopeful and favorable passage would be greatly appreciated. Thank you. [LB538]

SENATOR CORNETT: Any questions from the committee? Seeing none, thank you. Next proponent. [LB538]

ROBERT J. GOLKA: Senator Cornett, members of the Revenue Committee, my name is Robert J. Golka, that's spelled G-o-l-k-a. My address is 1757 South Arthur Street in Grand Island, Nebraska, 68803. I am a retired civil engineer, having worked almost 33 years for the U.S. Bureau of Reclamation, which is an agency of the Department of Interior. I am president of the Grand Island chapter of the National Active and Retired Federal Employees Association. This association is referred to as NARFE. On behalf of the 222 members of our chapter, I'm here to speak in support of LB538. Since our State Federation president, Ray Hogrefe, is out of the state and unable to be here, I am also speaking on behalf of the over 2,200 members of NARFE's Nebraska Federation of Chapters. My information is a little bit older than some, but it will give you an idea. You were told that there were some 17,000 retired federal employees in the state. In fiscal

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

Revenue Committee
February 04, 2009

year 2006, there were about 13,100 retired federal employees, and that's not counting the military retirees. The average monthly annuity of those federal retirees, again, not speaking of the military and based on the 2006 fiscal year, was...the average monthly annuity was about \$1,750. And I would guess that based upon the cost of living increases for the last couple of years, that's probably a little bit under \$2,000 a month now. But I'm here to speak on behalf of many of those federal annuitants who had lower-paying jobs such as secretaries, engineering surveyors, drafters, construction inspectors, and engineering technicians who receive a fairly small monthly annuity. But I also want to speak on behalf of the federal survivor annuities who, in Nebraska, make up about one-fourth of the retirees. These survivor annuitants receive only 55 percent of what the retiree's annuity was, and this averages a little bit over \$1,000 a month. As federal retirees, we pay full federal taxes on our annuities, and of course as Nebraskans we also pay sales tax, personal property tax, real estate taxes, and estate income tax. All of these are a burden that really hurts those retiring on the lower-paying jobs. LB538 would be certainly a positive step toward solving that problem. As you have heard, over about half the states do not have income tax or provide 100 percent exemption from federal retirees, and the rest of the states--excepting the four states, Nebraska being one--at least provide some relief of their state income tax. A state income tax on federal earned annuities has an effect that is related to that brain drain that you have been told about today. I personally know of Bureau of Reclamation employees that moved to other states upon retirement because of Nebraska's taxing situation. Not only the state income tax, but all the other taxes that we pay. Again, I think LB538 would help solve a part of this problem and Nebraska would benefit if many of these federal retirees decided to stay in Nebraska. So thank you for the opportunity to express my support for LB538 before this committee. Thank you. [LB538]

SENATOR CORNETT: Any questions from the committee? Seeing none, thank you. [LB538]

ROBERT J. GOLKA: I might address Senator Hadley. He asked, what's the philosophy of this? I graduated from UNL and went to work for the federal government. The reason I did that was because of job security and because of the benefits that the federal government provided. I got paid less money, and that was true all the way to the day I retired. So I guess I'm saying we want, maybe, an opportunity to get a little bit of that back. [LB538]

SENATOR HADLEY: Okay, thank you. [LB538]

SENATOR CORNETT: Seeing no questions, thank you. Next proponent. May I see a show of hands of how many people are left to testify in a proponent capacity? [LB538]

JOHN JENSEN: I'm John Jensen, J-e-n-s-e-n. Just a couple quick things here because I've already given my testimony. The 17,000 retirees the last gentleman referred to only

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

Revenue Committee
February 04, 2009

involves school, county, state, highway patrol, and judges; did not include the federal employees because I didn't know how many were retired in Nebraska. Since Nebraska is 43rd in teacher pay, and the pension is based upon a formula that's fairly comparable with other states...if you look at that that means that, on average, we're about 43rd in the country as far as retirement pay for school employees because it's based on that formula. For 36 years I did pay income tax in the state of Nebraska: property taxes, sales taxes, and many, many fees. I still pay property taxes, sales taxes, and still pay all those fees. Thank you. [LB538]

SENATOR CORNETT: Are there any further...or is any questions from the committee?
Senator Utter. [LB538]

SENATOR UTTER: Mr. Jensen, just a question, and I'm not picking on you today, but maybe you're the best looking one of our testifiers, I don't know. As a matter of tax policy, how would you as a citizen feel if we did away with the income tax, which certainly takes care of all of the testimony that we've heard today; if Nebraska didn't have an income tax, and instead we readjusted our sales tax: did away with sales tax exemptions and created a new sales tax that would tax almost everything as they do in South Dakota. And...which would include food, more than likely, if that were to happen. I'm not proposing this, I'm just asking for your reaction to a situation like that that would provide the state sufficient income to operate. [LB538]

JOHN JENSEN: You ask for my personal opinion here and I'll give you my personal opinion. I believe that there's quite a few exclusions in sales taxes that probably should not be there. I would continue exclusion on medical care and health and food, but many of the other exclusions I, personally, would say do away with the exclusions. I believe the same thing occurs in property taxes. There's many, many properties in this state--millions upon millions, maybe billions of dollars worth in Omaha alone--that's excluded from the property tax rolls. I think there's many things that the state of Nebraska needs to look at: maybe a complete overhaul of how you go about taxing its citizens. These exclusions, every single one of them, means that those of us who do pay, pay more. [LB538]

SENATOR UTTER: Thank you very much. [LB538]

SENATOR CORNETT: Any further proponents? Is there anyone here to testify as an opponent? Is there anyone here in a neutral capacity? Seeing none, that closes the hearing on...I'm sorry, Senator Giese. I apologize for that (laugh). That closes the hearing on LB538 and the hearings for the day. [LB538]

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Revenue Committee
February 04, 2009

Disposition of Bills:

LB69 - Held in committee.
LB70 - Held in committee.
LB248 - Held in committee.
LB303 - Indefinitely postponed.
LB538 - Indefinitely postponed.

Chairperson

Committee Clerk