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Revenue Committee
February 18, 2009

[LB121 LB171 LB555 LB670]

The Committee on Revenue met at 1:30 p.m. on Wednesday, February 18, 2009, in Room 1524 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LB121, LB171, LB555, and LB670. 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. [LB121]

SENATOR CORNETT: Good afternoon and welcome to Revenue. I'm Senator Abbie Cornett from Bellevue. To my left, I believe Senator Dierks will be joining us from Ewing; to his left is Senator Greg Adams from York; and Senator Hadley from Kearney. To Senator Hadley's left is our research analyst, Bill Lock; and committee clerk, Erma. On my far right is Senator Utter from Hastings; Senator Loudon from Ellsworth will be joining us; Senator White from Omaha; Senator Friend from Omaha; and committee legal counsel, Shannon Anderson; and our pages today are Rebecca and Elsie Cook. If you have cell phones on you, please turn your cell phones either off or vibrate while you're in the hearing room. The sign-in sheets for testifiers are on tables by both doors and need to be completed by everyone wishing to testify. If you are testifying on more than one bill, you need to complete a form for each bill. Please print and complete the form prior to coming up to testify. When you come up, please hand your testifier sheet to the committee clerk. There are also clipboards at 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 on the door today. The introducer of the bill will be followed by the proponents, the opponents, and neutral testimony. Only the introducer of a bill will be allowed closing remarks. As you begin your testimony, please state your full name and spell it for the record. If you have handouts, please provide the committee with ten copies of the handouts. If you do not have enough copies, please give them to the page and they will make copies for the committee. With that we will open the hearings for the day. Senator Wightman, you are recognized to open on LB121. []

SENATOR WIGHTMAN: (Exhibit 1) Good afternoon. Chairman Cornett and members of the Revenue Committee, I am John Wightman, spelled J-o-h-n W-i-g-h-t-m-a-n, representing the 36th Legislative District. LB121 provides for phaseout of the State Department of Revenue's assumption of the county assessor's function, a program that's been in effect since 1969. A brief history of the current law is necessary in order to really understand why it is important to repeal this law. Current law allowing state assumption of the county assessment function was enacted in 1969, so it's been in effect for basically 30 years. However, no county requested state assumption until after the passage of LB269 in 1997 that allowed for employee protections. In 1998, five counties requested and received state acceptance. Those counties were Dakota, Dodge, Garfield, Harlan, and Sherman. Keith and Saunders County requested and were accepted by the state in 1999. Two more counties, Greeley and Hitchcock, requested

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

Revenue Committee
February 18, 2009

and were accepted into the program in 2000. Since 2000, various counties including Loup, Cass, Kearney, Scotts Bluff, and Furnas Counties requested state acceptance, but all but Loup and Furnas Counties were denied state acceptance. And although Loup County was accepted in 2005 and Furnas County was accepted a year later, no additional state funds were appropriated to conduct the assessment function for either county. And while they're not listed on the group, I understand that Douglas County also, at one time, at least discussed the possibility of coming under and because of the high cost that would be involved in the state assuming that duty for Douglas County, it was not encouraged to follow through and was not accepted. So as the state reassessed its liability to fully fund this program, the remaining 84 counties continued to provide their own assessment functions at their own expense. Now you should understand what they do under this assumption of the assessor's office duties. They actually do all of the appraisal work within the county, and originally it was thought that this would create an equalization. But, of course, when they only went to nine counties it was very limited in the amount of equalization that ever took place. The state of Nebraska currently funds its salary and benefits of approximately 42 state employees for these nine counties, a budget expense totalling...and I have here \$3 million, but it's really closer to \$2.45 million; so this is what the state is paying out for those nine counties, and none of that is reimbursed to the state by these counties. The reason I have introduced LB121, and I might say I introduced it also a year ago, is to repeal the current law in order to save the state about \$2.45 million annually, and because the state is unable to offer or sustain funding for this program for all counties in Nebraska now or in the future. And I think you can imagine what would happen if we went to the Appropriations Committee, or probably any other committee, and asked for approximately \$30 million, which is my best guess as to what it would take to provide this function statewide. Because LB121 places a financial burden on the nine counties if it was passed, the bill provides for a phaseout period for three years; and that's the same as the bill that was submitted a year ago. During the phaseout period, the nine counties would reimburse the state of Nebraska for: in the first year, one-third of the cost that the state has; the second year, two-thirds of the cost; and the full cost in the third year. The counties may opt out of the state assumption program at any time during the three-year period of time, and LB121 further provides that employees moving from state employment status to county employee status would with salary and benefit transfers and protection. So they would have to be maintained at the same salary. The bill also provides for the appointment of county assessors until the next election. So once they decided they were going to assume the duties themselves, they would have to have an election because the county assessor's office is elected in all of the counties. Representatives of counties and the Department of Revenue are present today who can answer substantive questions that you may have regarding the history of the state assumption program and financial considerations of the bill. We have done some work in calculating what the cost of this is, and it really varies from county to county, because the counties vary a good deal in size. The three biggest counties...the four biggest counties are Dodge County, which has approximately 35,000 people; Saunders and

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

Revenue Committee
February 18, 2009

Dakota have approximately 20,000 people; Keith has about 8,000; and then they trend on down from a little over 3,000 to as low as 644, which is how many Garfield had in the 2006 estimate of the population. So it really varies, and actually, I think in Garfield County it's about \$257 per capita to perform that function. Now in Dodge County, which is the largest county, it's only about \$13 or \$14 per capita. But my best estimate as to what it would cost in the state...and that's always been suggested: well, maybe the state ought to take over the entire function. If we use even a \$15...\$10 per capita, we'd have \$18 million. But I would guess it would be close to \$30 million, if they were to assume the entire function. Well, it seems to me that you almost have to eventually make an election, and I think the time is now. Either you ought to do it all, or you ought to do none of it. And I know that counties will be in, some of them will be represented here today, who will lose the benefit that they've had for the past nine or ten years. And we tried to lessen that burden. Some of them probably are bumping up against their lid limit. But we've tried to soften that by this three-year phaseout. And I guess if it appeared that the lid was going to create too big an obstacle, maybe even a four-five year phaseout, if the committee wanted to offer an amendment. But I really think the three years is the best scenario, as far as a time period, that we would have. So with that I would try to answer any questions that you may have. I know that Larry Dix, I think, is going to testify, and an official from the Revenue Department will testify as well. [LB121]

SENATOR CORNETT: Thank you, Senator Wightman. Are there any questions from the committee? Seeing none, thank you. [LB121]

SENATOR WIGHTMAN: Thank you. [LB121]

SENATOR CORNETT: May I see a show of hands for how many people are here to testify on this bill? Is that proponents and opponents? Okay, thank you very much. [LB121]

DOUG EWALD: (Exhibit 2) Chairwoman Cornett, members of the Revenue Committee, I'm Doug Ewald, E-w-a-l-d; Tax Commissioner for Nebraska and the Department of Revenue. I appear before you today in support of LB121 which would allow for the reassumption of the assessment functions by the nine counties currently managed by the department. I support LB121 because it will provide a more fair distribution of the responsibility for the funding of the property assessment function in Nebraska. Currently, the funding for the nine counties managed by the department is from the state's General Fund, from taxes collected from all of our tax payers. The funding for the 84 counties is from each county's budget and property tax levy, therefore each county's tax payers. This means that if you are a property owner in any of the 84 counties, you are paying for your county assessment function from your property tax dollars, and for the county assessment function in the nine counties managed by the department, through your sales and income tax dollars. Given the scarce resources available to

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

Revenue Committee
February 18, 2009

support state governmental functions, it has not been possible to manage additional counties. I would not propose the state should manage all 93 county assessment functions. Therefore, in order to resolve the inequity of the funding of these functions, I support LB121 and the reassumption of the county assessment function by each county. Additionally, as Senator Wightman alluded to, I provided an exhibit which shows the history of the counties accepted and rejected for state assumption since, I believe, the late 1990s. That concludes my testimony; I'd be happy to answer any questions you might have. [LB121]

SENATOR CORNETT: Thank you, Mr. Ewald. Questions from the committee? Senator Hadley. [LB121]

SENATOR HADLEY: Thank you, Senator Cornett. Mr. Ewald, kind of why did we start doing this? What was kind of the primary reason that we got into your department basically getting involved in the assessment business? [LB121]

DOUG EWALD: Well, that was well before my time. I can't...and I don't know if Ruth knows anything, but it was allowed starting, I think, in the late '60s, and nobody took advantage of it or was asked for until the bill in 1997, I believe. I don't know if there's a way for the state to...there are some efficiencies there they thought they might have; a way for the state to pick that up and reduce the burden on some of the counties? I honestly can't speak to that. [LB121]

SENATOR HADLEY: And just one other question. What do the counties give up by having you do this? Is there...obviously, they must give up something, I would think, by having you do the assessment. Can you think of anything? [LB121]

DOUG EWALD: Well, currently today the counties have to provide us with office space to house the assessment people out there. But as far as what they give up, I guess I struggle for what they might give up other than they've left it in the hands...I mean, it's supposed to be an independent appraiser. You know, you have to have a certain education and pass certain exams to do that, so we would hope that they're not giving up anything as far as independence or the quality of work that's being performed. [LB121]

SENATOR HADLEY: The only thing that I can think that they might give up is the fact that a county assessor has to run for election every four years... [LB121]

DOUG EWALD: Well, that would be the big thing is there...the... [LB121]

SENATOR HADLEY: ...and if they aren't doing a good job, or if the perception is they're not doing a good job there is a mechanism to... [LB121]

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

Revenue Committee
February 18, 2009

DOUG EWALD: Right, I mean that if there's a perception of that, you're correct, Senator, in that if somebody's not...you obviously have the power to remove someone from office. [LB121]

SENATOR HADLEY: Thank you. [LB121]

SENATOR CORNETT: Senator Adams. [LB121]

SENATOR ADAMS: Thank you, Senator Cornett. As I look at your list here, you talk about in 2001, Loup, Cass, Kearney, Scotts Bluff recommend assumption...did not recommend assumption...do you recall, and I realize you weren't there necessarily, but what was the basis for accepting or rejecting a county? [LB121]

DOUG EWALD: No, I don't...honestly, I can't speak...that was when the Property Tax Administrator, that function was, for a ten-year period there, it was outside of the Department of Revenue. It didn't come back into the Department of Revenue until 2007, so for me to guess would be pure speculation, honestly. [LB121]

SENATOR CORNETT: Seeing no further questions, thank you. [LB121]

DOUG EWALD: Thank you. [LB121]

SENATOR CORNETT: Next proponent. [LB121]

LARRY DIX: (Exhibit 3) Senator Cornett, members of the committee, my name is Larry Dix, spelled D-i-x. I'm executive director of the Nebraska Association of County Officials, here today in support of LB121. The handout that I'm passing around really isn't anything magical, but it does give you sort of a graphical view of the nine counties. And as you can see on there, it's somewhat of a patchwork; sort of checkerboarded as you look across the state--it isn't that it's concentrated in one area or another. But if I may, I may address Senator Adams' question a little bit, and certainly I'm not speaking on behalf of the previous Tax Administrator, but I know we had had discussions over these years, really, about this and one of the theories at one point in time was there could be some efficiency gained if the counties were all sort of clustered together in one location, because then you could utilize one assessor, one appraiser. In what's actually going on on those counties, you'll see Harlan and Hitchcock, I think, share an assessor; and I think it's Greeley and Garfield may also, quote, share an assessor, so. I think that was some of the logic at some point of the time, and that may have weighed in to when to decide who to accept and who not to. When Senator Hadley asked his question about what did the counties give up, I just jotted down two notes and I think Mr. Ewald covered them. One is that we give up space in the courthouse to a state agency, and the other is an elected official. And that's one of the premises why NACO is in support of LB121 is that we strongly believe in local control, and we believe that our officials...we should be

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

Revenue Committee
February 18, 2009

accountable and we should be elected. And so that's one of the premises that we have on there. We certainly appreciate...we've worked with Senator Wightman from when this bill first came about, and Senator Wightman approached me and talked about it and I had said, you know, one of the things I know we're going to have difficulty if we just, on day one, we just assume the full cost of this. So we certainly appreciate Senator Wightman's option of going through that over a three-year period of time. We think that if that is something that we have to have happen, that's something that certainly softens the blow, and we too are certainly open to; if the committee wants to look to move that further out, four years, five years, certainly something that we're very, very open to. Historically, even last year NACO was in support of this bill for the exact same reasons that I stated today. I think Senator Wightman covered pretty much the fact that a number of our counties, our county boards, talked about this, discuss it's really an all or none. And I think even back at that time when this first started, we talked about sort of the all or none: if they were going to do it, take them all. Don't do this patchwork because internally, in the association, in the assessor's association, it does create some issues. It does create some issues within a courthouse. And so that's one of the reasons why, again, why we're here in support of LB121. So with that I'd be happy to answer any questions anybody may have. [LB121]

SENATOR CORNETT: Senator Utter. [LB121]

SENATOR UTTER: Thank you, Senator Cornett. Mr. Dix, was there any adjustment made in the tax lid because a county was not supporting their own assessor's office? [LB121]

LARRY DIX: No, I don't think so. And I think when that question came up, you know, why did we do this in 1997...if you think back to 1997, that was a time when there was some money and I think people were starting to look at some means to provide some property tax relief and said, here it is. And I think some counties, certainly through no fault of any of the counties that are these nine counties, they simply said, hey, we think this is a good idea for our county and a way to save our tax payers some money. [LB121]

SENATOR UTTER: Are all of these counties at the max, up to the lid? [LB121]

LARRY DIX: No. In fact, I printed that out...I thought somebody may ask that so I went to the Department of Revenue and the Property Tax Administrator's Web site--I can give you those. Dakota County...let me just run down through these for you so you know where their levy is at. And this information is coming off the Department of Revenue Property Assessment Division's Web site on the 2008 Certificate of Taxes Levied. Dakota County is at .427; Dodge, .234; Garfield, .411; Greeley, .325; Harlan, .312; Hitchcock, .369; Keith, .328; Saunders, .298; and Sherman at .401. And of course, that number...it's like .401707, but I just gave you the first three digits of those numbers.

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

Revenue Committee
February 18, 2009

[LB121]

SENATOR UTTER: And the lid is what? [LB121]

LARRY DIX: .5. [LB121]

SENATOR UTTER: .5. [LB121]

LARRY DIX: I would mention if we look at some of the smaller counties, and of course it's somewhat relational because of the number of staff, but I have heard from some of the small counties that, if they were to assume it again, under their estimation they believe it may take...full assumption...it may take anywhere from six to eight cents. So those that are at their .41, .42, that certainly would place them right at that lid. [LB121]

SENATOR UTTER: Looking at, for example, Garfield County with their 644 population. In a real life situation, would they not stay teamed up with someone? [LB121]

LARRY DIX: They would certainly have that option to do that. The counties could sign an interlocal agreement with Garfield County, and let's just say Greeley County, not that that would be the one they necessarily pick, but let's say it would. They could sign an interlocal agreement between those two counties to do something like that. I think the statutes are such that there is the ability to do that. Now that isn't necessarily real easy, because when you think about it, when we go back to this we say, each county shall elect an assessor. And so there's some hoops to jump through. But it could be done. [LB121]

SENATOR CORNETT: Senator Louden. [LB121]

SENATOR LOUDEN: Yeah. I want to thank you for your testimony, Larry. If my memory served me correctly, I was mixed up in some of this, but back there in about...in those years like that we were having a big turmoil over valuation from one county to the other in one end of the state, and we even had that...I don't remember what you call it, but out west we had that 11 county organization, and at that time you were supposed to try and have your real estate all valued comparably amongst those 11 counties. Then somewhere along the line somebody got the idea that if the state took over all of that then it would probably all go away; the state would be the assessor. And that was put out there, and some counties did it and some counties didn't. And consequently it ended up when some of these were rejected, by then there wasn't enough money coming around. The state was supposed to be able to do it cheaper than what the counties could, and by the time that came around in about 2001 or wherever it was, they found out that the counties could do it cheaper than what the state did, so that's when the whole thing went down the tube. When you talk about like Dakota county at 42 now, you put another six or eight on there because they've got to have 15 cents in there for all of

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

Revenue Committee
February 18, 2009

their fire districts, hospital districts, and everything else in there. So if they put another six cents and get up to 48, there's going to be some of those hospital districts or whatever other districts involved in there that will probably have to start either having some special elections to go over their lid or something. Is that correct? [LB121]

LARRY DIX: Yeah, I think...without analyzing the Dakota, without analyzing the 42 cents I don't know how much of that has already taken place, but you're exactly right. When you look at that, there's the 35 cents and then there's the ten cents, I think, for school districts...not school districts, fire districts, just as you mentioned; and then there's another five cents in there for interlocal agreements. So you'd really have to take that levy and analyze it and sort of see, county by county, where they're at within those individual components. [LB121]

SENATOR LOUDEN: Because 50 cents is the maximum with all... [LB121]

LARRY DIX: Fifty cents is the maximum for counties, constitutional. That's...we have nowhere to go. We cannot run back to the Legislature and say, raise our 50-cent limit. [LB121]

SENATOR LOUDEN: Because there could be...well, Dakota and then perhaps Sherman and Greeley in there, could develop into a little bit of a bind if it was going to cost them very much to start back their assessor. [LB121]

LARRY DIX: It could. Again, you know, when you look at a Dakota County, of course, they've got a little more value, and as I said before, it's relational. They have a little more value, so therefore they're probably going to have to have a little bit larger staff to do the job. So it's probably somewhat relational, but you would probably want to look at each county and sort of see how that...how they would fare. [LB121]

SENATOR LOUDEN: Thank you. [LB121]

SENATOR CORNETT: Senator Adams. [LB121]

SENATOR ADAMS: Thank you, Senator. You've already answered one of my questions, Larry, but I have to ask the obvious; and maybe the answer's already here and I just didn't hear it. If tax rates...let's take Dodge: if they're at 20-some cents, and any of these counties, obviously, could argue that their property tax rate will go up if they have to reassume. Why, when the offer was made, didn't we have 93 counties trying to lower their property tax by saying to the state, do it? Or for that matter, why don't we see more interlocal agreements between counties to share if it means, in effect, reducing cost? [LB121]

LARRY DIX: The first part, why weren't there more...you know, I think when this first

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

Revenue Committee
February 18, 2009

came about there's always this debate or this discussion of state takeover; you know, the state taking over, taking away authority. And so I think there was certainly some of that out there. A number of counties said yeah, well I don't know if we're interested. A number of counties, I know, had said, we like the idea of our assessor being elected by the people within the county, and so there was certainly that discussion. With that I think any of these counties, if they take that back over, it would be fair to say that their tax rate would increase, certainly would increase. [LB121]

SENATOR CORNETT: Senator Hadley. [LB121]

SENATOR HADLEY: To follow up on Senator Adams' question: Mr. Dix, we hear a lot about, with 93 counties, that we have duplication. To quote Senator Joel Johnson: Nebraska likes little government; a lot of little government. It would seem to me that this might be a perfect chance to look at setting up eight or ten potential assessment centers that might have five or six counties in that...you know, just looking at the state, that it seems to almost be some logical areas. Would something like that be possible, or is that just dreaming on my part? [LB121]

LARRY DIX: I don't think it's dreaming on your part. I would tell you, for a number of years, and this goes back many, many years ago, in fact, when Cathy Lang happened to be the Property Tax Administrator. We tend to get into this battle of how many counties do we need? [LB121]

SENATOR HADLEY: Um-hum. [LB121]

LARRY DIX: You know, is 93 the right number? And when Senator Johnson introduced his legislation I think I had mentioned, and a number of you probably heard me testify, if we were to redraw the map today, we wouldn't draw it with, probably, with 93 counties. But keep in mind we probably also wouldn't draw it with Lincoln as the Capitol. There may be some different decision points. But at that point in time, Cathy Lang and I had this discussion a lot of times that maybe as opposed to the issue of 93 assessors, we ought to share appraisers, because now you're not getting into the elected component, you're getting into a staff component. And that, in fact, is happening in a number of counties. I think when you go down to Richardson County, I think they're sharing an appraiser with Nemaha, maybe even with Pawnee. We're seeing that a number of counties in the Panhandle will share an appraiser, because it cuts through the issue of the elected component of it. The other thing that's happened in those counties to sort of cut down and consolidate is in, I think, 13 of those counties, the assessor is also the clerk. And the clerk in those 13 counties is also the registrar of deeds, is also the election commissioner, and is also the clerk of the district court. So the consolidation in some of those have not happened across the county line, but the tasks have consolidated within the office, within the county. [LB121]

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

Revenue Committee
February 18, 2009

SENATOR HADLEY: That answers my question, because obviously...another question I had, because obviously the smallest county is not on the list of the ones that the state is doing, right? Is Cherry... [LB121]

LARRY DIX: Right. Arthur County is not on the list, and I would tell you the Arthur County clerk is one of those that wears the five hats. [LB121]

SENATOR HADLEY: Okay. [LB121]

SENATOR DIERKS: Further questions? Senator Utter, please. [LB121]

SENATOR UTTER: I have just one more question. If there's a requirement that an assessor be elected in each county, as you intimated, how did we get around that requirement when we gave our assessment duties to the state? [LB121]

LARRY DIX: I believe, and this one here is...if anyone wants to correct me, I would stand to be corrected. I think at that point in time that in that law it was sort of carved out that the Property Tax Administrator would be the, quote, assessor in those counties. That was where the title went. And then they could identify sort of a chief of staff or... [LB121]

SENATOR UTTER: So would there be anything that said that a single assessor couldn't be elected to serve two or more counties? [LB121]

LARRY DIX: I don't know. That one I would have to do research on. I don't know the answer to that one. [LB121]

SENATOR HADLEY: Thank you. [LB121]

SENATOR DIERKS: Other questions? Senator Louden, please. [LB121]

SENATOR LOUDEN: Yeah, one question, Larry: what did we call that year like we had out west--you had the 11 county areas, because we just got rid of that whole organization here...oh, when Senator Stuhr was in here. [LB121]

LARRY DIX: The first thing that popped into my mind was the Greenbelt Advisory Board, but that is not it. [LB121]

SENATOR LOUDEN: No, that wasn't the one. But 11 counties out there had their organization, and about so many counties had their organizations, and that was more or less to compare their valuations through that. I think it was Senator Stuhr here, about the second or third year I was down here, she was bound...Seward and somebody over here got in a little cat and dog fight over it and the city was bound to get away with that

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

Revenue Committee
February 18, 2009

organization and it was gone. [LB121]

LARRY DIX: Yeah. [LB121]

SENATOR LOUDEN: But that was the one that was kind of used to take the place of help with the assessors and that sort of thing, wasn't it? [LB121]

LARRY DIX: The name of that escapes me, and it was designed so that land values, typically across county lines, would sort of meld together and mesh, yes; that is what that was designed for, and I apologize, I just... [LB121]

SENATOR LOUDEN: Would anything like that work to have something like that going again if this bill goes forwards? To allow those areas to, like I say, they would be able to have an appraiser then? [LB121]

LARRY DIX: Well, I think today... [LB121]

SENATOR LOUDEN: I mean it says it could be anybody in the courthouse, for that matter. [LB121]

LARRY DIX: Today, counties can share appraisers across county lines, and a number of them do. So I think that can happen today and is happening today. [LB121]

SENATOR LOUDEN: Okay, thank you. [LB121]

SENATOR DIERKS: Other questions for Larry? Thanks, Larry. [LB121]

LARRY DIX: Thank you. [LB121]

SENATOR DIERKS: Next proponent, please. Further proponents? Is anyone here in opposition to this bill? If you're opponents to the bill, I ask you to come up front and have a seat where we can get at you when you need to come. Go right ahead, sir. [LB121]

MICHAEL GOLDFISH: My name is Michael Goldfish, G-o-l-d-f-i-s-h. I come on the county board in Greeley County about the time these functions were being offered to us and I've heard a lot of the questions and answers which I feel like I could give good answers to. And we had a...we was up against the levy cap at 45 cents, and we was having to lay people off, cap insurances. It put us in a real financial bind. And so this was looked at and...I wasn't on the board when it was offered the first year--I come on the next year and Bert Meyer (Phonetic), chairman of the board, he asked me to take a look at it. So I, first thing I did, I didn't have enough information so I went to Kearney and attended the mandated assessors workshop that they have to attend. All county

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

Revenue Committee
February 18, 2009

assessors have to attend this workshop; if they do not attend, they was told they would have to have a good reason or else they would maybe lose their certification. So the way I was looking at it...so I attended this three-day workshop in Kearney and Cathy Lang run the workshop with her liaisons and it was made very clear to me after attending this workshop that the assessors office is a state-mandated, state-run office. The assessors...their job is to collect the information from the counties. They have to have their information filed in Lincoln by a certain date in the spring, and the Property Tax Administrator's office looks this information over as far as values and if they see something out of line, if not within the margins that they're required to have their values in, the Property Tax Administrator will hand out an order to the counties to get these in line. We was handed down that order; we was also handed down the order to reappraise. What happens is, if you're short of money and you don't have a lot of money, you don't reappraise. So we hired an outfit out of Elm Creek that come up and reappraised. It was a drive-by; we're a small county, about 2,500 people. They done a drive-by of the villages. It cost us \$30,000 that summer. My opinion was that it was a waste of money. The guy that appraised...you're not going to hire the most expensive outfit...he asked me to go along with him in one of our villages and we was driving around and he asked me what I thought about those houses. I said well, I can tell you which house is worth more than the other house, but it's your job to tell us what they're worth. So we got through that part and it come time to decide whether we would hand this over to the state, and most counties won't touch it because it's political. And most of them...there's a stigma out there, and I don't know if you hear it down here in Lincoln, but there's a mistrust whether the state will be able to do the proper job. And I guess I never really felt that way until this bill come out because what this is telling us is when they handed this decision over to us they said, you know, we're going to take this assessment but we're going to keep it, and you can't get it back. So it was a political deal; I stuck my neck out there because we needed the money to function. And we had laid off some part-time help in both the treasurer's and the clerk's office--caused a lot of political hard feelings. Fritz Folt (Phonetic), one of the members been on 16 years got voted off because of it. So, you know, it basically was a tough decision to hand it over to the state. Because you go to the county workshop and talk to the other commissioners and a lot them says, I won't handle that or I won't even touch that because they'll vote me off the board, the people will. And so we went ahead and handed it over, because the way it looked to me that the laws are written down here in Lincoln through the state senators that manage the assessment process; it's all state law. We'd already been mandated and told to reappraise. And by the way, a reappraisal is, to my mind, is a joke because once you reappraise those houses, the first sales that start coming in, they throw that appraisal out the door. I mean, the best way to handle the assessment is through the sales and see what the properties bring. The reappraisal part is...as long as you're doing your pickup work and get your...get everything on there that's supposed to be on there and watch and monitor your sales you should be fine. But the state wants you to reappraise about every four years, and they'll split it out in four categories. They'll do the ag land, they'll do the rural residential, they'll do the residential, and commercial.

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Transcriber's Office

Revenue Committee
February 18, 2009

And there's no way these small counties can afford to do this reappraisal practice in the manner that the state wants you to do. So that was a cost factor that I don't think people are considering when they're saying this is how much it costs to run this assessor's office, because the reappraisal part is huge. A lot of money to do that in a four-year period, so most counties don't; they don't do it. I mean, they'll drag their feet until they're made to do it. And so we went through that process, but I still feel that when we did this we was told that we couldn't ask for it back, it was going to be a permanent process and we would have to keep it this way. And here we are a few years later saying we're going to hand it back to you. And the biggest problem I have with that is we just can't afford it. And we got a certain pay scale in our counties that we can't pay these wages. I don't know; how can you tell the clerk and the treasurer that we're going to pay the...because I'm taking the assumption, unless I'm wrong, that we're going to be required to pay the same salaries that are being paid now. And we can't afford those salaries, and how are we going to tell the clerk and assessor that they're going to have to work for quite a bit less than what the assessor's going to work for? There's already enough tension in these courthouse between employees because of stuff like this. So it's a money factor. The money's the biggest issue, and I guess \$2.4 million, in your budget, is not much, to be realistic. Every county...there's argument that every county isn't in this deal but every county was given the option to be in this deal. So don't blame the guy that took the choice because the other counties are not in it. As far as I'm concerned, it's state law; it's state mandates; there's a liaison on the Property Tax Administrator's office that is in every office in the spring making sure they get their work put together. The county assessors are pawns. They are collectors of the information that has to be sent down here, and I have no problem with that. But that's what they are. I mean, you guys have got to...it's got to be done right. And I would say there would be a few people out there, probably, if you just let them do it the way they want to do, we probably wouldn't have no assessment. But the way it's being done, and I'm not saying it's wrong, but it is a state function. If there is an office in the courthouse, this could be done with, it is the assessor's office. Because you have the Property Tax Administrator who handles it anyhow. You know, he's here today, but he is the boss of the county assessors. He does...he can revoke their certification. Now, I know he doesn't want to do the job; it's more work for him. But Cathy Lang, I thought, did a good job. She was pretty neutral. But I went to the workshop and the other thing is the election issue. We're in a county of 2,500 people; we've got one certified person that could qualify for the job. There is no election. We have it. When we had it before, but we never have two people on the ballot. I think it's a hand-me-down job. The old assessor was Jack Novak (Phonetic)--he did it for 35 years; next assessor was his deputy which done it for the next 35 years; and the next one liable to do it for the next 35 years. So if you're talking about elections, the people want elections, well, there will only be one person on the ballot probably the next 35 years. I want to make a standard correction that Garfield, Sherman, and Greeley share an assessor. And those assessors are appointed by the Property Tax Administrator; the Property Tax Administrator is not the assessor. So you did probably save some money there, sharing an assessor. They kept the same staff that we had

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

Revenue Committee
February 18, 2009

before; they do their own reappraisals which...they're kind of leaving the reappraisal deal out of the issue because that's where it costs as much to reappraise as it does to run the office. So when they say, you know, you can do it for less or whatever, they're not telling the whole story. Because if you've got to reappraise the way the state wants you to reappraise, the counties can't do it for less. The only difference is the pay scale. And I don't know how you're going to handle this. If you hand it back, we've got county retirement; it isn't the same as the state retirement. We got wages that can't be the same, throughout the courthouse. It'd be a big mess. I probably won't be on the county board next election if we have to start picking up this extra cost because I know where we was at when we started; we was at 45 cents. We asked all the rural fire districts to hold their own elections. They had to go out and ask for their own money, which people weren't real happy about. It was initially started in my mind and what we was told for property tax reduction, which we did. We was at 45 cents; when we signed over to the state we went to 28 cents. So we helped the people of the county. You know, I don't want to say my county's a poor county, but I was just reading an article in the Greeley Citizen; 22 percent of our kids live in poverty in Greeley County. And their parents got to pay these taxes. And I did this to help those taxpayers. And I put my neck out on the chopping block because it is a political stigma by doing it, but it was for pure property tax relief, and I believe that's why it was established in the first place. And we can prove that we did that in our county. I mean, we had a cap on our insurance that people were paying out-of-pocket, out of their wages for more than insurance was costing them...or the county's share was, so. I just don't want to go back to them days where we've got to start laying off a few people, tell them we're going to cut their insurance. Because, there's another issue, it's not related to this issue, but... [LB121]

SENATOR CORNETT: If it's not related, let's stay on topic. [LB121]

MICHAEL GOLDFISH: Okay, but it is your money. [LB121]

SENATOR CORNETT: Okay. Well, let's stay on the topic of this bill, please. [LB121]

MICHAEL GOLDFISH: Okay. Our cap is at 45, which is 5 cents for interlocal. We're at 32. We've got bridge issues; there's going to take the rest of that money that we've got left. We've got 20 bridges the state has sent letters this fall to close the roads. So we either close the roads or fix the bridges. Well, we don't have any room for any more you've got to do this. So I'm saying we'll be put in a bind. Is there any questions that I could help you with that I'm not thinking of? [LB121]

SENATOR CORNETT: Let's see. Questions from the committee? Seeing none, thank...oh, sorry, Senator Hadley. [LB121]

SENATOR HADLEY: Just a quick question. You're in Greeley County, that's correct? [LB121]

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

Revenue Committee
February 18, 2009

MICHAEL GOLDFISH: Right. [LB121]

SENATOR HADLEY: Well, I just thought it was an interesting map that Mr. Dix gave us and, you know, in a six-county area, three of the counties do not have an assessor and three do. And it goes back to my point, you know, it looks to me like you could have a six-county area that is not huge population but a huge geographic area there that could share an assessor, share appraisers, and get by fairly reasonable, instead of having six offices. [LB121]

MICHAEL GOLDFISH: Right. But it's all political. I mean, you're not going to get a lot of supervisors, commissioners, to stick their neck out there and say we need to do that. Because they've got to go home to their voters that, to be honest with you, might not trust the state of Nebraska to do the right thing. And I don't like to say that, but I listened to those other people out there tell me why they wouldn't touch this thing when we was handing it over, and that's the reasons. Because like I said before, when you hand this over, we was told that this was permanent. And now we are a few years later, not very long years later, that it is not permanent. But yeah, you're right. [LB121]

SENATOR HADLEY: I guess I'm just coming from the standpoint that if we did pass this bill, you have six counties that seem to be very close to each other, similar in geographic size; I don't know about population, but there could be some economies of scale, each of the counties did not have to have their own assessor, appraisers, and such as that when you're talking about a money issue. [LB121]

MICHAEL GOLDFISH: I don't think that's going to happen, though. It's that local control. You tell the people, but if they sit on the board they can see how much local control that the assessor's office has. You got the Board of Equalization that the county commissioner set on, and the supervisors. Outside of that, that's it. There's no local control. [LB121]

SENATOR CORNETT: Thank you. [LB121]

MICHAEL GOLDFISH: Okay, thank you. [LB121]

SENATOR CORNETT: Seeing no further questions. Next opponent. [LB121]

ELDON KIEBORZ: Eldon Kieborz, K-i-e-b-o-r-z from Sherman County. I'd like to go over just a little bit of what's been said. Your question there, the six counties...you're getting into some of them got quite a little heavier population. We are, three counties, are servicing with one appraiser and one assessor now; all three of these counties. And it can go farther, but I would like to propose what would really work, I think, is if the state would do the appraisal part of it and let the counties have their little local vote on their

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

Revenue Committee
February 18, 2009

assessor that they keep in their office, and then use that office for travelling appraisers. You probably know 90 percent of the people out in the...especially in the rural area, probably, believe that it's local control on that assessor's office. They don't understand that we have no control whatsoever in the county, that everything is actually mandated. And of course when you tell them it's mandated, then they come back with an unfunded mandate, why do we have to do it? So there, if we could get the state to come in, I don't know; something to think about. And I can go over a lot of things or reasons that we have this--we can't afford it, there's a whole list of them, but we're not going to do that. Let me get into that bill, if I read that right, ends in July 1 which is the fiscal year, and not the chronological year when all the elected officials begin. (Inaudible) Are we to have an election on an election year and then have that assessor, if we have to elect one, take over the following July? And for six months we have the state and then they come in? How do we work that change? [LB121]

SENATOR CORNETT: Any questions from the committee? Seeing none, thank you very much. Were there any further opponents? Neutral testimony? Senator Wightman, you are recognized to close. [LB121]

SENATOR WIGHTMAN: Thank you, Senator Cornett. When we introduced the bill, we fully understood there were going to be some problems in the reassumption of this duty. And yet we get down to, when are we going to do it? I know Mr. Goldfish I think, testified that they had three years but my notes show that the state assumed that in the year 2000, so we're looking at eight or nine years that that's been assumed by the state of Nebraska. With regard to the cost to these counties, I think I told you that it varies a good deal from county to county. I think I was looking at a 2006-2007, I have here the 2007-2008: it cost \$495,000 just in Dodge County for the state to carry on this function in Dodge County; Saunders County was \$409,000. Some of the smaller counties, Sherman, who was here and testified today, was \$144,000 in 2007-2008, and Greeley County was \$159,000, so. You know, it is a big expense to the state of Nebraska, and I know there's been a lot of testimony here with regard to the fact that these counties are having difficulty in meeting their limit, but I dare say that many of the counties that aren't here and have carried on their own assessment duties are having these same problems with their levy limits. And it isn't quite as simple as...while these nine counties came in, other counties attempted to come in over a period of years and were turned down and were not accepted for one reason or another. And I think that it's necessary to look at that too; that we've refused to take other counties that have asked to come under the same law. And so it seems to me it is all or nothing, as Mr. Dix suggested to you. That it's a little hard to continue forever to have these nine counties on and say well, maybe we made a mistake at the time, but we'll carry on with that mistake. I think we do have to look at getting out. Now if a study of the levy limits in these counties indicates that maybe it would be better done in a four- or five-year period, and I think five would have to be the limit, but we would still much prefer to see that expanded as far as the time over which that re-assumption of the assessor's office duties would occur than to see

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

Revenue Committee
February 18, 2009

nothing done at this session; because I think we need to move on and either assume them all, and then I can almost assure you that there will be no real impetus on the part of the Legislature to take on a \$30 million function, which we would replace about \$2.4 million at the present time. So I don't think that's a realistic possibility. I think the only possibility is that we discontinue this, and how we get out of it is the question. And whether three years is the proper time; that's why we put in the phase in is so that we could look at lessening the impact on those nine counties involved. But I'm not here to say that possibly a little longer period, four or five years, wouldn't be acceptable because I think it could be. Because I think we have to look at getting out; the question is how we get out. Thank you. I'll answer any questions you might have. [LB121]

SENATOR CORNETT: Any questions from the committee? Senator Utter. [LB121]

SENATOR UTTER: Thank you, Senator Cornett. I see this as an equity question, as an equity issue the way that it's come down the pike. And I'm kind of a new member here, is one of fairness as to whether or not the rest of the state should continue to pay the assessment expenses for just a few counties hardly seems fair to me. Would you agree? [LB121]

SENATOR WIGHTMAN: I would agree and I think that's indicated by the fact that Larry Dix is here testifying on behalf of the County Officials overall, and obviously he represents those nine counties as well. But the overriding feeling is that that equity issue, as Senator Utter has suggested, does become a very big factor. [LB121]

SENATOR CORNETT: Senator Hadley. [LB121]

SENATOR HADLEY: Senator Cornett. Senator Wightman, thank you very much for coming. I agree, it's an equity issue. I just happened to do a little research that you and I represent Buffalo County. [LB121]

SENATOR WIGHTMAN: Right. [LB121]

SENATOR HADLEY: And Buffalo County has about, give or take, 44,000 people, and I called the Buffalo County assessor and they spend about \$475,000 on the assessment function, which turns out to be about \$10.90 per capita, which is well under all the costs that you've shown here. So I wonder if there might be more of a pressure for efficiencies when it is kept at the county level, for keeping the costs down, versus the state. [LB121]

SENATOR WIGHTMAN: Senator Hadley, I think that's right. I also think that the counties do not provide...and that is a problem when we reassume, the counties reassume those duties. The counties do not provide the same benefit package, probably. [LB121]

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

Revenue Committee
February 18, 2009

SENATOR HADLEY: There could be some... [LB121]

SENATOR WIGHTMAN: Their pay scale may not be as far out of line as the benefit package, but I think an awful lot of them do not provide the same level of health insurance, and maybe retirement as well. And so I think that makes up some of that difference, but there may also be an efficiency situation there too. And I know that you've addressed the issue of, could some of these counties go together. It might take enabling legislation for that to happen, but I think we've got to think outside the box and that might be one of the things that we need to think about. But I think that could be done during the phase in period; I don't think that's a reason to delay action at this point. [LB121]

SENATOR CORNETT: Any further questions from the committee? Seeing none, thank you. [LB121]

SENATOR WIGHTMAN: Thank you very much. [LB121]

SENATOR CORNETT: That closes the hearing on...no, only the introducer's allowed to redirect. [LB121]

_____: (Inaudible) [LB121]

SENATOR CORNETT: You are more than welcome to submit written testimony, but when we...only...we do not go back. That closes the hearing on LB121. Senator Nantkes, you are recognized to open. [LB121]

SENATOR NANTKES: Good afternoon, Senator Cornett, members of the committee. My name is Senator Danielle Nantkes representing the "Fighting 46" Legislative District from here in north Lincoln. That's N-a-n-t-k-e-s for the record. I'm here to introduce LB171. LB171 would amend the Nebraska Research and Development Act tax credit from 15 percent to 30 percent of the federal credit allowed under Section 41 of the Internal Revenue Code of 1986, as amended. The credit would be available in the initial year it is claimed, and the four tax years following. Current law allows for a 15 percent credit of the federal credit which amounts to 3 percent. This proposal would double it to 6 percent. I introduced this bill for the following reasons: I believe it's important that we continue the dialogue and discussion on how to make Nebraska more competitive with regards to investment in research and development. I believe that we should examine state policy changes that should be pursued in order to ensure that our economic development efforts fully leverage the state's public and private research capacity. As you well know, research provides the basis for innovation which will continue to be a vitally important factor for our state's competitiveness in developing higher wage jobs and a more diversified economic base. Increasing the tax credit to companies that invest in these types of activities makes Nebraska more competitive, and is one way

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

Revenue Committee
February 18, 2009

that we as state policymakers can ensure a healthy, economic future for Nebraska. This proposal also helps to encourage the university's proven record of success in securing competitive federal grants for research in the areas of biotechnology, bioscience, physics, crop genetics, nanotechnology, computer science, transportation, energy, drought, climate change. The list goes on and on and on. These all hold great potential to encourage economic growth throughout the state. As you well know, a member of this committee, Senator Tom White, has a similar proposal before the body, and he and I have had a chance to visit, and I'm so glad that there is another vehicle to discuss these important concepts. And I appreciate how difficult your job is as a Revenue Committee in uncertain economic times. And I've been tipped off by some other members who have been before you that the first question is, how are you going to pay for these proposals? So, that being said, I appreciate the difficult economic times that we're operating in, particularly as a member of the Appropriations Committee. I share your concerns as we look at those bottom line figures. My hope would be that if we are unable to carve out resources to provide for the revenues necessary to effectuate this public policy change, that we can keep the dialogue going, that we can take steps forward, whether through Senator White's legislation or through my own, to ensure that Nebraska is ready for the new economy, is ready to be competitive, has the types of jobs and industries we need to grow as a state. And that being said, I imagine that most of you also, hopefully, will support the concept, and in terms of where we are in a year or two years from now, maybe that's a better time to look at specifics. But maybe the time to invest is now. Maybe it's time to take some of the economic uncertainties, and to make a policy statement about how we're going to move forward and increase our economic base in Nebraska. And this or Senator White's legislation, which is slightly different in its approach, I think would accomplish the same end. Thank you. [LB171]

SENATOR CORNETT: Thank you, Senator Nantkes. Any questions from the committee? Senator Louden. [LB171]

SENATOR LOUDEN: Yeah. Senator Nantkes, I'm not familiar with what's that...the activities as defined in that internal code, you know. Is that...does that have to be medical research or what kind of research, or can they, you know, count bugs over here in Salt Creek or, I mean, (laughter) if we're going to give a tax discount, we ought to know what they're going to do. Is that defined in there, what the perimeters of what they can or can't do? [LB171]

SENATOR NANTKES: Senator Louden, I think that's a great question, and I won't for one minute pretend to be an expert on the Internal Revenue Code of 1986, as amended, which probably contains some of those definitions. But my goal is to ensure that we have additional tools available to research and development activities targeted to areas such as biotechnology, bioscience, physics, crop genetics, nanotechnology, computer science, those types of activities that are legitimate, that do pay great dividends, and I'm sure I know that there's a variety of economic development

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

Revenue Committee
February 18, 2009

professionals that will be testifying at some point during the day today who can talk about those categories of eligibility. [LB171]

SENATOR LOUDEN: Should those be listed then in here or just left wide open? [LB171]

SENATOR NANTKES: I think that there's probably existing definitions available to deal with the types of research and development activities that we're contemplating and that do pay great economic dividends. And I guess I'd be reluctant to restrict the type of activities that could be contemplated under the bill as originally drafted. [LB171]

SENATOR LOUDEN: And with 15 percent, do you know how much of that's been used now or how many have put in for that? Do you have that information? [LB171]

SENATOR NANTKES: I think that some folks coming to testify in support of Senator White's bill or this bill will have some specific information about the current usage of the tax credit program. [LB171]

SENATOR LOUDEN: Okay, thank you. [LB171]

SENATOR CORNETT: Senator Hadley. [LB171]

SENATOR HADLEY: Just one quick question. [LB171]

SENATOR NANTKES: Yes. [LB171]

SENATOR HADLEY: What kind of power do you have over Senator Utter because he is always the one that asks the question of how are you going to pay for this (laughter), so...and he's never left the committee before (laughter). So I just wondered how in the world you got him to step out and not ask you the question of how you're going to pay for this (laugh). [LB171]

SENATOR NANTKES: Well, I do have the extraordinary privilege and benefit to be seated by Senator Utter on the floor of the Legislature, so we have a chance to visit and dialogue about these issues quite frequently. That being said, I would hesitate to acknowledge that I have any unique power over any member of the body (laughter). But I...some colleagues had tipped me off, so I figured I'd jump out and address it head on (laughter). Thanks. [LB171]

SENATOR HADLEY: Thank you. [LB171]

SENATOR CORNETT: Thank you, Senator Nantkes. [LB171]

SENATOR NANTKES: Senator Cornett, I'm going to waive my closing at this time.

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

Revenue Committee
February 18, 2009

[LB171]

SENATOR CORNETT: And before you leave, I just wanted to let you and the audience know that anyone that is here to speak on both bills, you are more than welcome when you come up to speak on Senator Nantkes', just to say, me too, for Senator White's bill. As a time-saving, it will be entered in the record that you support both bills. [LB171]

SENATOR NANTKES: Thank you. [LB171]

SENATOR CORNETT: And likewise with Senator White's, if you wish to testify to his bill, but wish to support Senator Nantkes', you can also do that. But we can reduce redundant testimony that way. Thank you. [LB171]

SENATOR NANTKES: Thank you, Senator Cornett. [LB171]

SENATOR CORNETT: With that, I'll open up the hearing for proponents. [LB171]

STEPHEN FRAYSER: (Exhibit 4) Good afternoon, Senator Cornett, members of the Revenue Committee. My name is Stephen Frayser, S-t-e-p-h-e-n F-r-a-y-s-e-r. I'm president of the University of Nebraska Technology Park LLC, and I appear before you this afternoon representing the Lincoln Chamber of Commerce. Also happy to be able to provide to you in the packet that we gave the pages, letters of support from Abengoa Bioenergy, the BioNebraska Life Sciences Association, Creighton University, Li-Cor, Incorporated, Nebraska Ethanol Board, and the city of Lincoln. In a truly global economy, companies are facing increasing competitive pressures today from quarters that they didn't even consider less than a decade ago. And we've come to the reality that the future business competitiveness today is tied to their ability to bring new products and processes to market ahead of their competition. The days when Nebraska or the U.S. or anyone else can compete on the basis of low operating costs for mass produced products are drawing to a close, if, indeed, they're not already over. With globalization, we also see intense pressures for cost control. The pharmaceutical industry, for example, is the latest to begin migrating research and development to Asia in order to tap into scientific labor at lower costs. Singapore, for example, has built an entirely self-contained city within its confines strictly for the use of developing new drugs and doing discovery. China and India are both aggressively building new research parks and academic complexes in order to attract technology firms and establish applied science and research bases. At the time that the U.S. enacted its research and development credit program in the 1980s, it was a world leader and set the stage and set us apart. Today other countries have surpassed us. Canada, for example, matches the 20 percent credit the federal government provides, but then increases the amounts that are provided to small businesses. Other countries include investment in facilities and equipment as eligible activities unlike the U.S. and China today, for example, provides a 150 percent credit for industry-based research and development that occurs

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

Revenue Committee
February 18, 2009

within that country. When you enacted the Nebraska Research Advantage Act, we were one of only four states that provided for reimbursable research and development tax credits. Today we're one of seven. Thirty-eight states offer some form of support for industry innovation, and the credit ranges are from 1.9 percent to 24 percent of total business expenditures. In Nebraska, we have a tradition of innovation. Among the things that started here with the center pivot irrigation industry, creation of novel animal vaccines, and the invention of the underlying technology that's used today for the basis of genetic screening and analysis. However, today we're lagging behind the competition in surrounding states in our region. According to the most recent data available from the National Science Foundation, Nebraska businesses spent approximately \$447 million on research and development in 2006. Examined in context, that level of expenditure represents just over one-half of one percent of total industry expenditures made that year. That places us sixth in the nine-state region. Private sector research activity in Iowa represents just under one percent of total business expenditures and would be the median level for this region. That doesn't sound like much of a difference. However, if you place it again in context, that would mean if we were spending the same amount of money in Nebraska industry as they are in Iowa, approximately \$210 million additional research activity would be going on in the state. We appear before you today to ask for consideration of two changes in the current Research Advantage Act. And I should say, any comments that I'm making should be taken as supportive of LB555 from Senator White as well. First, we're asking in an effort to leverage resources available through Nebraska's postsecondary education institutions, and to encourage greater interaction between them and the private sector that the available Nebraska credits be expanded from 15 percent to 35 percent of the federally provided credits when those research activities are done collaboratively with a postsecondary education institution. Overall, Nebraska's higher education institutions do the best job of the nine-state region of interacting with business. However, we believe that we have room for improvement and should be pursuing that. We believe the fiscal impact of increasing the credit amounts for collaborative research will be approximately \$2.3 million over a four-year period. Our second request is to include language which clarifies which expenditures by business are eligible for Nebraska research and development credits. Each year the federal government offers competitive grants and contracts to small businesses through what are called the Small Business Innovation Research Grants program and the Small Business Technology Transfer program. It's a source of funding aimed solely at supporting commercial research for those products and processes which are of national interest. Among the Nebraska companies which have used those funds to success, to start their launch...starting to launch their businesses have been Nature Technology, A Creighton University Medical Center startup which has developed new methods for vaccine production, the J.A. Woollam Company which is a UNL spin-off which has developed instrumentation used in the production of thin films for semiconductors and specialized reflective surfaces, 21st Century Systems which produces mission critical software for the defense industry, and Li-Cor which is a worldwide producer of advanced scientific instruments. In addition, we see an added opportunity unique to this

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

Revenue Committee
February 18, 2009

coming year. The new signed federal stimulus package includes within it opportunities for additional private sector research. We should be encouraging Nebraska firms to aggressively pursue those funding opportunities, and for those firms with multiple state locations, it would be in our interests to have them pursue that federal funding at their Nebraska facilities. The issue that we're asking to be resolved is the Nebraska Department of Revenue as an administrative matter has decided currently not to allow federally funded research conducted by a private enterprise to be counted as an eligible activity under the Nebraska R&D credits. The irony of the situation is that same flow of funds coming to the company are treated as taxable income. Simple clarification language would remove an important barrier for Nebraska firms. We estimate the annual fiscal impact to the state of making that clarification to be approximately \$90,000 a year for each of the next four years. We recognize the economic environment in which we're making these requests is a difficult one. We believe, however, that the requests we're making are modest in relation to the opportunities that are available. I would also mention that the groups of institutions, organizations, and firms which will be represented here today have a strong interest and continue to work towards a more thorough and comprehensive approach to creating new opportunities for private sector research, and to that end, we would express today an interest in working with this committee and others within the Unicameral over the next 12 months to explore what should and could be done to position Nebraska for sustainable growth through increased innovation and collaboration. Thank you for your time, and I'd be happy to answer any questions. [LB171]

SENATOR CORNETT: Seeing no questions, thank you. [LB171]

STEPHEN FRAYSER: Thank you. [LB171]

SENATOR CORNETT: Next proponent? [LB171]

ABRAHAM OOMMEN: My name is Abraham Oommen, A-b-r-a-h-a-m O-o-m-m-e-n. Good afternoon, members of the committee, and thank you for allowing me to speak. I am the president of a small biotechnology company based here in Lincoln, Nebraska. We work primarily with production animals, actually an ag genomics company. We develop and provide tools that allow breeders and the other people who raise animals to select animals based on economic traits, and we've been doing this for about 11 years. And though we are a small company of about 30 people, we do a considerable amount of R&D, and I'll just make four points that might give you an idea as to why that's important for a company like ours. First of all, in the knowledge-based economy, which is what we as a company work under, we need R&D to develop new tools. When we develop that, what it really creates for us is intellectual property, and to me, at least intellectual property is the driver for new opportunities and growth. For example, we applied for SBA grants and received funding. We have currently got one pending for, I think about \$2 million. We have also generated even though we are a small company,

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

Revenue Committee
February 18, 2009

one patent, and we have several pending. In a globalized economy, that gives us competitive advantage. The more intellectual property we generate, the more advantage we have. So the third point I'd like to make is that for a lot of the people we try to recruit into our business and to work as employees in our company, most of the well-trained ones are very interested to know if we do R&D. And that's a big thing because the more complicated research projects you do, the better brains you can retain in Nebraska, because that's what keeps the clever ones in the state. And the last point definitely as a company, we have competitive advantage when we do R&D and generate intellectual property. And that's all I have to say, and I'm open to any questions if you have. [LB171]

SENATOR CORNETT: Thank you. Any questions from the committee? Seeing none, thank you, sir. Next proponent? [LB171]

ABRAHAM OOMMEN: Thank you. [LB171]

MARLAN FERGUSON: (Exhibits 5 and 6) My name is Marlan Ferguson, M-a-r-l-a-n F-e-r-g-u-s-o-n. I'm the president of the Grand Island Area Economic Development Corporation, and I'm here in support of both LB171 and also of LB555. On behalf of my organization, and I want to submit a letter in support of the legislation from the Nebraska Economic Developers Association, of which I am a member of that organization. We believe that it's time to create new opportunities for private sector research in Nebraska. As we move further into economic development with global competitiveness, we must position ourselves to become more attractive for research and development. We can build on the current Research Advantage Act by encouraging formation and growth of new and emerging technology based firms. An enhanced interaction between business and Nebraska institutions of higher education is certainly needed. R&D is more than lab coats; it includes creation or improvement of products and production processes. Therefore, there is a need to provide incentives which induce proactive investment decisions by Nebraska businesses to undertake additional research and development activities in the state of Nebraska. The incentives need to be applied in a manner which will maximize their positive impact on business. Now this certainly includes more than firms in the metro areas of the state. It includes firms such as Abengoa Bioenergy in York, Ward Laboratories in Kearney, Case I-H in Grand Island, Nova Tech in Grand Island, and Monsanto in Gothenburg just to name a few. I'm sure there's many, many more that I have failed to mention today. The university and other higher education facilities are doing a good job of increasing its academic research base and in training our future work force. The key now is to strengthen our private sector to create the products, services, and career jobs to grow Nebraska in a changing economy. Thank you for the opportunity to be heard today, and I'll answer any questions. [LB171]

SENATOR CORNETT: Senator Hadley. [LB171]

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

Revenue Committee
February 18, 2009

SENATOR HADLEY: I guess I'm kind of slow on how things work. We're talking about a federal credit, right? [LB171]

MARLAN FERGUSON: Right. [LB171]

SENATOR HADLEY: And how much...is that a percentage of the amount or is that a dollar amount or? [LB171]

MARLAN FERGUSON: It's based on a percentage amount. I think the previous speaker can address that if you want more detail later. But yeah, it's based on the federal credit amount, depending on how much money is invested in the R&D program of each individual company. [LB171]

SENATOR HADLEY: And then the Nebraska credit...what we're asking is, there would be a Nebraska credit that would increase from 15 percent of that federal credit to 30 percent of the federal credit. [LB171]

MARLAN FERGUSON: Thirty percent, right. [LB171]

SENATOR HADLEY: Okay, I just wanted to be sure on what... [LB171]

SENATOR CORNETT: Seeing no further questions, thank you. Next proponent? [LB171]

PETER KOTSIOPULOS: Afternoon. Chair Cornett, members of the Revenue Committee, I'm Pete Kotsiopoulos, P-e-t-e K-o-t-s-i-o-p-u-l-o-s. I'm vice president for University Affairs at the University of Nebraska. We are a part of central administration that reports directly to the president, and responsible in three areas, namely, government and legislative affairs, media and communications, and economic development and engagement. The latter is where I spend a significant portion of my time. I came to the university three years ago after 36 years in the private sector, which has provided me with valuable experience and knowledge in this arena, and I would like to thank Senators Nantkes and White for their leadership on this important issue. Yes, during these economic times that are quite difficult, it is important for the state to make long-term investments which will result in job creation and product development. Enhancing the state's research and development tax credit is such an investment. By marrying the entrepreneurial spirit of industry with the cutting-edge research conducted by our universities, research and development tax credits are just one tool that can help us to grow this economy. Nebraska entered the R&D tax credit arena somewhat late, and having enacted our version in 2005 after many states had already had several years of positive experiences with this type of legislation. And in Nebraska, enacting an R&D credit, we did not grant an additional incentive for businesses to engage partnerships with any of our four-year institutions in colleges and universities. We agree

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

Revenue Committee
February 18, 2009

with Senators White and Nantkes that now is the time to revisit this issue. While we understand that fiscal circumstances this year may make it difficult to make all the changes that are needed to make Nebraska's R&D tax credit fully competitive with other states, we believe that the amendment suggested by Senator White to add a university partnership provision is an important step. The university is committed to using these resources to grow the state's economy. Please view us as a resource as we all move forward together, and please keep in mind that we...our attempt is to help improve Nebraska's research climate by advancing one of these worthy bills. Thank you for your time. [LB171]

SENATOR CORNETT: Any questions from the committee? Senator Hadley. [LB171]

SENATOR HADLEY: Mr. Kotsiopoulos, a quick question, and I should have asked Mr. Frayser, but the University of Nebraska Technology Park LLC, are there state funds that go into that or is that wholly self-supported type of operation? [LB171]

PETER KOTSIOPULOS: Well, Steve, you want to respond more clearer than myself? Oh,... [LB171]

SENATOR CORNETT: We...(laugh) [LB171]

PETER KOTSIOPULOS: Oh, pardon me. [LB171]

SENATOR CORNETT: That's okay. Would it be all right if he provided you with written testimony? [LB171]

SENATOR HADLEY: Okay, yeah (inaudible)... [LB171]

SENATOR CORNETT: Either that or we can call you back up just to answer that specific question. Why don't you go ahead and excuse yourself and come back up. Come back and restate your name for the record. [LB171]

STEPHEN FRAYSER: My name for the record is Stephen Frayser, F-r-a-y-s-e-r. The Technology Park LLC is a wholly-owned subsidiary of the University of Nebraska Foundation, and we receive no university funds and no state funds in our operations. [LB171]

SENATOR CORNETT: Thank you. [LB171]

SENATOR HADLEY: Okay, that...I just think that's important. [LB171]

SENATOR CORNETT: Next proponent? [LB171]

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Transcriber's Office

Revenue Committee
February 18, 2009

LORAN SCHMIT: (Exhibit 7) Good afternoon, Chairman Cornett and members of the committee. My name is Loran Schmit. I am pleased to be in front of the Revenue Committee and in support of LB171 and LB555. I agree with the previous witnesses who have testified here today that these bills are very desirable, and that we should, hopefully, get some support for them. I am appearing here today not only as an individual, but also as an executive director of the Association of Nebraska Ethanol Producers. And it has been almost 40 years since the Nebraska Legislature embarked upon that proposal. And it has taken a lot of turns and twists as it has progressed, and as with all new programs, development has not always proceeded in an orderly manner. Each succeeding Legislature has introduced new legislation and continued to improve the biofuels program in this state. It is no secret that the development has not kept pace with the demand. Nebraska is the second largest ethanol industry in the United States. Although the industry has made tremendous progress during the proceeding years, I believe we are on the brink of a major expansion in the development of the ethanol industry. I'd just like to call attention to the committee that the cooperation that the ethanol industry had with the University of Nebraska, particularly with Mr. Bill Schiller who is head of the chemical engineering department, was a principal factor in giving credibility to the industry back in a time when it did not have much credibility. Ongoing research in the production of ethanol from cellulosic material is taking place at the Abengoa ethanol plant in Nebraska at the present time. And as has been indicated earlier by Mr. Frayser, the Abengoa company has submitted a letter of support to these bills. The research that takes the place of this type of legislation sponsored by Senator Nantkes and Senator White could lead to the development of value-added products for the biofuels industry. Cooperation between business, industry, and the University of Nebraska on this type of research will continue a long and successful tradition and will result in increased economic development and expansion of high quality jobs in the state. On behalf of the Association of Ethanol Producers, I support LB171 and LB555, and I'd answer any questions. [LB171]

SENATOR CORNETT: Any questions from the committee? [LB171]

LORAN SCHMIT: Thank you. [LB171]

SENATOR CORNETT: Seeing none, thank you. [LB171]

LORAN SCHMIT: You bet. [LB171]

SENATOR CORNETT: Next proponent. Are there any more proponents? Opponents to the bill? Neutral testimony? That closes the hearing on LB171. Senator Nantkes waived closing. Senator White, you are recognized to open on LB555. [LB171]

SENATOR WHITE: (Exhibit 8) Thank you, Madam Chairman. Members of the committee, good afternoon, and thank you for allowing me to present LB555. I won't

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Transcriber's Office

Revenue Committee
February 18, 2009

belabor the general concept of it; it is the same as Senator Nantkes with one difference. LB555 would, in addition, allow credit of 35 percent of the federal tax credit if the research in question was done either on the campus of a college or university in the state, or on a facility owned by a college or university located in the state. The fiscal note on this was always going to be a concern but given the recent projections, of course, it increases in concern. Accordingly, I would also ask the members of the committee to consider, in light of the fiscal realities facing the state, a series of amendments, which I'd ask to be passed around, which would, in effect, strike the increase of the overall credit from 15 to 30; leaving, however, the increase of the credit to 35 percent to the extent it is done on the campus or on a facility owned by any college or university located in the state. I would submit to the committee that the possibilities at this moment in time of building on what's already been constructed in this state are extraordinary. One of the projects that could be substantially assisted by this change in the tax policy is coordination of algae-growing facilities with ethanol plants. They have discovered through the University of Nebraska, which is one of the leaders in the world of this, algae forms...they are 70 percent oil. They thrive by being fed with carbon dioxide and heat which is produced through the creation of ethanol fuels. Coupling our ethanol production with such facilities could make, not only great environmental sense, but enormous economic sense. We have faced, as a people, a long-term drain of our youngest and our brightest. Increasingly, the cost of education weighs on our budget and increasingly, the very fine and educated young people we produce leave the state. One of the points of this bill that I'm particularly proud of is that it is not limited to the campus of any one university or college. A metropolitan community college would qualify; a facility at Curtis would qualify; a facility purchased by the university to pursue a research project could occur in any county in the state and the tax credits would be available. Although I don't think Senator Louden's here, one of his questions was, why do we track the federal credits instead of defining our own credits? And the reason is because research is a moving target. It would do the future of our economy no good to research a better buggy whip; things change. On the other hand, a bill...when this bill was passed, a great number of promising technologies weren't even dreamt of at the time the initial matters were reviewed. Like it or not, we are the tail compared to the federal dog. And the most effective way of attracting and holding research and thereby the young people who would fill those jobs, is to mirror and enhance those missions defined by the federal government. Therefore, it is structured to tag along with the federal system, and it is structured in a way that if the federal government changes research and development targets we will also adapt with that. I would be happy to answer any questions for the committee; I know it's been a long day. And unless they would request, otherwise I will also waive closing. [LB555]

SENATOR CORNETT: Any questions from the committee? Seeing none, thank you. First proponent. [LB555]

THOMAS O'NEILL: Senator Cornett, members of the Revenue Committee, I'm Tip

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Transcriber's Office

Revenue Committee
February 18, 2009

O'Neill, O-'N-e-i-l-l, and I won't be as long as the guy from Greeley. We support this bill. Thank you. (Laughter) [LB555]

SENATOR CORNETT: Thank you. Next proponent. [LB555]

STEPHEN FRAYSER: Stephen Frayser, F-r-a-y-s-e-r; University of Nebraska Technology Park, Lincoln Chamber of Commerce. I also won't belabor the fact: we're here to support this bill. [LB555]

SENATOR CORNETT: Thank you. Next proponent. Are there any opponents? Neutral testimony? That closes the hearing on LB555, and Senator Pirsch has not arrived yet for LB670, so we'll take a couple minute break. [LB555]

BREAK []

SENATOR CORNETT: Good afternoon, Senator Pirsch. [LB670]

SENATOR PIRSCH: Good afternoon, members of the Revenue Committee. My name is Peter Pirsch. I'm the state senator for Legislative District 4. I am also the sponsor of LB670. LB670 is a property and income tax relief package. First, LB670 is intended to grant \$100 million in property tax relief for Nebraskans for tax year 2009. Second, LB670 provides for income tax relief by allowing for more of the income of Nebraskans to be taxed at the lowest income tax rate. The lowest tax rate would be changed to apply as follows: for a single return, that would increase from \$2,400 to \$5,000; married filing jointly returns increase from \$4,800 to \$10,000; head of household returns will increase from \$4,500 to \$8,000; married filing separate returns increase from \$2,400 to \$5,000; and finally, estates and trusts increase from \$500 to \$1,000. By increasing the amount of income allowed in the lowest tax bracket, LB670 grants approximately \$100 million in income tax relief divided over the next three years. I do appreciate the opportunity to address this committee. The concept, I guess, is flexible with respect to...we're kind of in a period where our...you know, it's a down economy and our projections are vacillating. We don't know what kind of effect that the...you know, whether we're going to suffer a slowdown in our economy. But I would suggest that tax relief as an economic development measure will help to mitigate against having a profound slowdown. And so I think the beauty of this approach as to other approaches would be that with respect to adding a component of individual income tax relief we have a lasting type of tax relief that will make it a permanent difference as far as job creation, attracting business to the state, and retaining people here in the state. So the individual figures are, you know, I'm willing to work with the committee to...you know, given whatever realities that the Revenue Committee feels exist, but I think that as we're approaching tax relief, we should incorporate the idea of adding a permanent type of tax relief--getting, I think, in my estimation, the biggest bang for our buck so that is factored into decisions as to whether to locate businesses to Nebraska and keep people here

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

Revenue Committee
February 18, 2009

and jobs here in Nebraska. So having said that, I appreciate the time of the committee. I would be open to any questions, and again, we'd just like to emphasize that I'd be willing to work with the committee with any concerns that the committee has. [LB670]

SENATOR CORNETT: Senator Hadley. [LB670]

SENATOR HADLEY: Senator Cornett and Senator Pirsch... [LB670]

SENATOR PIRSCH: Yes. [LB670]

SENATOR HADLEY: Just a quick question, being kind of the newbie on the block. The \$100 million in expenditures is the fact that this is for the property tax relief? Is this because we would have to basically pay that money back to state and county and educational institutions? [LB670]

SENATOR PIRSCH: Well, no, actually the way it would...the property tax relief would be a one-time shot. That's the way property tax...we don't, as a state, impose property tax and therefore we don't have...it's an expenditure because essentially we're taking monies that were raised by the state through income tax, and monies through sales tax--which we do collect as a state--and we're basically buying down the local property taxing entities property tax bill. So we're giving a tax credit, utilizing the same method or mechanism that was utilized last year and the year before. So on their statement it'll say that the local property--the counties send out--this is your local property tax bill. By the way, the state kicked in this much to buy down your total of your property tax. And so that is, on our books, booked as an expenditure, I believe, so. [LB670]

SENATOR CORNETT: Seeing no further questions; thank you, Senator Pirsch. [LB670]

SENATOR PIRSCH: Very good; thank you. [LB670]

SENATOR CORNETT: First proponent. [LB670]

DOUGLAS KAGAN: (Exhibit 9) Good afternoon, Senators. My name is Doug Kagan and I represent Nebraska Taxpayers for Freedom. Our group strongly support LB670 for a number of reasons. According to our 2008 Taxpayer Misery Index, Nebraska is highest among all adjacent states in tax burden, state and local, and second highest in total taxes paid per capita. Major Nebraska state and local taxes have grown faster than the growth of our economy, as measured by Nebraska personal income. Nebraska personal income taxes have risen at a faster and higher rate than the national rate of inflation and our rise in personal income. Nebraska ranks highest among all adjacent states since 2003 in property tax ranking. Our states ranks worst among all adjacent states in these three property tax categories: median property taxes paid on homes, taxes as a percentage of home value, and taxes as a percentage of income. Nebraska ranks

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

Revenue Committee
February 18, 2009

second worst in the entire nation, examining median real estate taxes as a percentage of median home value. Our property taxes have grown faster than the rate of inflation since 1984. We believe that Nebraska is a high tax state, that our present tax structure dissuades companies from locating subsidiaries here, dissuades Nebraska companies from expanding here, and persuades productive citizens to move to other states with lower taxes. LB670 offers tax relief on two fronts. First, it would alleviate our high state income tax structure, especially for those at lower income levels. Lowering this tax would allow Nebraska consumers to fuel our economy with their extra dollars. Second, it would provide more dollars for property tax relief. We would prefer to see part of these relief dollars come from the cash reserve fund, rather than witness dollars from this fund earmarked for spending program or programs. Though the Property Tax Credit Act appears to be a temporary, or Band-Aid, approach to our ever escalating property tax malaise, continuing property tax relief is necessary, we believe, because property valuations continue to climb precipitously over the years. LB670 would allow property tax payers in all income groups and regions to inhale some relief from spiraling property taxes--that includes those owning rental properties--until the Legislature, hopefully, will feel sufficient public pressure to comprehensively reconfigure our property valuation system. We would hope that Legislature can make Nebraska the tax mecca of the Midwest, similar to how Iowa now is world famous for attracting companies to locate there because of their comprehensively reformed tax structure. Thank you. [LB670]

SENATOR CORNETT: Thank you. Questions from the committee? Senator Friend. [LB670]

SENATOR FRIEND: Thank you, Madam Chair. Doug, don't...I've been talking for a good portion of time about the idea that we do have problems, structurally, in each of our...you know, a third, a third, a third... [LB670]

DOUGLAS KAGAN: Right. [LB670]

SENATOR FRIEND: ...thought process. I mean, income, sales and property. [LB670]

DOUGLAS KAGAN: Right. [LB670]

SENATOR FRIEND: Don't you think, though, and it's been my assertion that, as I've done, I guess, high-level study that the sales tax system is so dysfunctional it causes problems with our income tax system and our property tax system. Now, we try to fix the other two, but I've been here for weeks now and I've only seen one item--I think it was Senator Dierks--that dealt with some of the issues that we have as far as sales tax goes. Am I on the wrong path here? I mean, we have a dysfunctional sales tax system, in my view. Now, sure, our property tax and income taxes have problems... [LB670]

DOUGLAS KAGAN: Um-hum. [LB670]

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

Revenue Committee
February 18, 2009

SENATOR FRIEND: ...if we provide functionality in that area, don't you think it solves some of the issues or the concerns that we have with our property and income tax? [LB670]

DOUGLAS KAGAN: You mean by looking at the state sales tax first? [LB670]

SENATOR FRIEND: At looking...dealing with a dysfunctional sales tax system that provides more exemptions than anything that we have across the board. I mean, we're paying exorbitant property taxes in certain areas... [LB670]

DOUGLAS KAGAN: Um-hum. [LB670]

SENATOR FRIEND: ...we're paying a difficult income tax to deal with...doesn't it seem like a logical starting place to me? And we've hardly dealt with it at all. [LB670]

DOUGLAS KAGAN: Okay. Well, here is where we would put the starting place at. We would start at property taxes. Why? Simply because in polling our members and other people, and we've actually sent out surveys around the state, and we asked people, you know, what is giving you the most pain? Which tax? And it always comes back property tax. [LB670]

SENATOR FRIEND: Doug, good point. But the problem is it's causing the most pain...look, okay, we can take this offline, but I enjoy discussing these things with you. [LB670]

DOUGLAS KAGAN: Yeah. [LB670]

SENATOR FRIEND: Along with that thing we were discussing earlier. But the point is, they cause us pain because we're not handling the functions that we can handle. We rip around the edges and we're not handling the functions like a sales tax code that is so messed up that we can't get a grip on it. I mean, fair enough? [LB670]

DOUGLAS KAGAN: Right, you're fair. I agree with your assessment, but from our point of view, best case scenario would be the Legislature appoints a committee of some kind to examine the entire tax system. So you look at the third, third, third. [LB670]

SENATOR FRIEND: Which we did, by the way, but anyway, we'll talk. We'll talk offline, Doug. [LB670]

DOUGLAS KAGAN: Yeah, but again, as a starting point, if you're not going to, right now, do something to comprehensively reform the entire tax system, we're looking at what people are complaining about the most and that seems to be property taxes.

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

Revenue Committee
February 18, 2009

[LB670]

SENATOR FRIEND: All right; fair enough. [LB670]

SENATOR CORNETT: Senator Hadley. [LB670]

SENATOR HADLEY: Yes, Senator Cornett. Mr. Kagan, since I ran for election obviously taxes seem to be the number one topic that everyone wants to talk to me about--the level of taxes. You can't pick up a newspaper or anything. But no one wants to talk about that we're spending the money, and every time I ask somebody what they want if we want to reform our tax system--which, to me, is a euphemism for lowering taxes--no one ever wants to tell me what they're willing to cut in expenditures. So do you have any ideas of...to balance the equation that...if we just look at redistributing the taxes between...without changing the total taxes, we're still going to have a high tax burden. So where do we cut if we're going to cut the tax burden? [LB670]

DOUGLAS KAGAN: We have to cut because if you comprehensively reform the tax system and lower the taxes and you're still spending too much, you're going to have a gap. Obviously, you're going to have a terrible deficit. So you're right; we would advocate, you know, comprehensively looking at where to cut state spending and we've...our taxpayer group for several years has put out a list--I'll get you a copy. We haven't worked on it for about a year but we have about 200...we have, you know, bullet points...about 200 suggestions for cuts in the state budget. [LB670]

SENATOR HADLEY: Yeah, I would...it's the first person I've heard that has come up with a list. One other point or question: I'm becoming a little more, just a little more inquisitive when we keep comparing ourselves to the states around us, and I read that Kansas is no longer going to be able to do tax refunds because they have no money. Their higher education system is taking a 3-5 percent midyear tax cut. South Dakota has spent its rainy day fund and they have no idea where they're going now. Iowa is...you know, so. You know, when you compare us to other states around us, we're one of seven states that is not sitting here having to make these horrendous cuts in midyear and such as that, so maybe some of the things we might have been doing in the past may not have been all bad. Is that a fair... [LB670]

DOUGLAS KAGAN: Yeah, I think that's a fair statement. What we're doing is comparing just the tax structure. I don't know what goes on with the fiscal situation otherwise in the other states--South Dakota or Kansas. But I know Oklahoma is supposedly doing pretty well and they have...they're not adjacent to us but they have a fairly lower tax structure than we have. [LB670]

SENATOR HADLEY: Okay. [LB670]

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

Revenue Committee
February 18, 2009

SENATOR CORNETT: Senator Dierks. [LB670]

SENATOR DIERKS: Thank you. Mr. Kagan, if I could borrow a phrase that I picked up a minute ago, I think we are letting the tail wag the dog, Senator White. We have a...you say we need to take care of property tax--that's where you want to start. [LB670]

DOUGLAS KAGAN: Right. [LB670]

SENATOR DIERKS: But that's got to be the finish. The start has got to come some way to take the pressure off of property tax. And that has to come from either income or sales--that's the only way we can do it. And there, I think, is where the problem is. We have laws in our state that tell us how we can assess... [LB670]

DOUGLAS KAGAN: Um-hum. [LB670]

SENATOR DIERKS: ...who can do the assessing, and they're limited by caps and lids on what they can do and how they can overspend. Maybe we ought to look at some of that as well. What do you think? Do you have any problem with what I'm saying as far as the property tax ought to really be the end of the line instead of the start of the line? [LB670]

DOUGLAS KAGAN: To take the pressure off the property taxes, I...well, I know for a fact that local governments depend heavily on property tax because it's the most stable tax. And in order to take the pressure off the property taxes, I think you have to look at the spending at the local level. And I know we've had battles with local taxing authorities around the state, especially in Douglas County, and it's really tough. You know, you look at merger between Omaha and Douglas County and you run into turf mentality. You battle the school districts and they don't want to cut their budgets because they say such and such is policy, and then they don't want to make cuts. So it's...we need the relief, but again, I think you have to put the spending reform with the tax reform. [LB670]

SENATOR DIERKS: Thank you. [LB670]

SENATOR CORNETT: Senator Louden. [LB670]

SENATOR LOUDEN: Yes, thank you, Senator Cornett. Well, there's this bill that talks about \$100 million. What was it, a couple of years ago I think we put out \$75 million for property tax relief? [LB670]

SENATOR WHITE: One hundred fifteen. [LB670]

SENATOR DIERKS: A hundred and... [LB670]

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Transcriber's Office

Revenue Committee
February 18, 2009

SENATOR WHITE: \$115 million. [LB670]

SENATOR DIERKS: \$115 million, was it? [LB670]

SENATOR WHITE Yes, sir. [LB670]

SENATOR LOUDEN: Anyway, everybody got about...for every \$100,000 of valuation you got about \$75 or so on property tax relief. So what happened when the next year come up? Our valuations went up. The community colleges raised their mill levy one cent and right now my property tax is just where it was or a little bit higher than it was when we, you might say, put \$75 million out there and it evaporated. I mean, it was gone with nothing to show for. So how, by doing this bill, would you cure that? [LB670]

DOUGLAS KAGAN: Well, you can't cure it because what this is...what we feel this is a very necessary, temporary approach for tax relief. The problem with the local subdivisions is the people get back their property tax credit so that they pay less in taxes, but that doesn't pressure or give any incentive to the local subdivisions to do anything about raising their taxes. But the key issue here is valuation, and I know this bill does not talk about valuation, but our sense is that the root of the property tax problem is not the tax, it's the valuation system, which was last changed by the Legislature in 1995 and I think it took effect in 1996 when it mandated the county assessors to raise the valuations, at least in residential, 92-100 percent of market value. And what we see, especially up in Douglas County is these local subdivisions like school districts and the county and the cities, their officials, at budget time, they'll come out and tell the citizens oh, don't blame us--we didn't raise your property tax rate. Or we lowered it a little bit. And technically they're telling the truth, but what they don't tell you is the valuations went up so they're laughing all the way to the bank because they have more dollars. [LB670]

SENATOR LOUDEN: Because your levy stayed the same, and theoretically when you go and argue that before the TERC committee they tell you your valuation went up, your levy should go down. But never in my life have I ever seen that happen, so I'm wondering when we talk about property tax that's on a local level because I was on that tax commission that we had a couple years ago... [LB670]

DOUGLAS KAGAN: Right. [LB670]

SENATOR LOUDEN: ...and when we would bring that up we'd ask someone, when they were complaining about their property tax, well, did you go to your budget hearing when your school had the budget hearing last summer? And every one would say, oh, well, we can't cut school funding. And that was 65 or 70 percent of your property tax. So until you can put a hammer on those people that levy the property tax, I think all of this is just, you know, just throwing it out the door. Because I don't think...whatever you give

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Transcriber's Office

Revenue Committee
February 18, 2009

will be evaporated by next year. Do you agree with that? [LB670]

DOUGLAS KAGAN: Well, no, I think we really need to do something right now and I think LB670 will offer...you have to take the lid off the pot and people are boiling. People need some tax relief right now, I mean, we're in a recessive economy. People are losing their jobs. Up in Douglas County, people are being taxed on their homes at market value that was market value five years ago. And they can't sell their houses now for what they could sell them five years ago. [LB670]

SENATOR LOUDEN: Now, well, yeah, I don't need to get into that, but this \$100 million would probably be enough to state fund the community colleges. Should this money be used to fund state colleges? And that would take anywhere from 8 to, what is Omaha's, 4.5 or 5 cent for your community college. That would take that right straight off of your property tax right there. [LB670]

DOUGLAS KAGAN: Well, I think this offers a more direct relief to especially the homeowners and the property owners, because a lot of people, to this day, they don't look...they get the property tax bill every year and they don't look at every line to see what taxing authority is taxing them, they just look at the bottom line. [LB670]

SENATOR LOUDEN: Well, yeah, but if you funded state colleges...if the state had to fund community colleges it would be on their bottom line. It'd show up right now because it would be...a big chunk of it would come off your property tax. [LB670]

DOUGLAS KAGAN: Well, we still think LB670 would be a more direct way to impact people. [LB670]

SENATOR LOUDEN: Okay, thank you. [LB670]

SENATOR CORNETT: Senator Dierks. [LB670]

SENATOR DIERKS: Thank you. As I understand it, the funding for this would come from the cash reserve. [LB670]

DOUGLAS KAGAN: Right. [LB670]

SENATOR DIERKS: So we would use our \$500 million cash reserve and take \$100 million out of that and use that to fund the bill. [LB670]

DOUGLAS KAGAN: Right. We'd rather see it used on tax relief rather than spend on any additional spending programs. [LB670]

SENATOR DIERKS: Thank you. [LB670]

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

Revenue Committee
February 18, 2009

SENATOR CORNETT: Senator Adams. [LB670]

SENATOR ADAMS: Out of curiosity, what if we took \$200 million and put it, run it through the TEEOSA formula and then lowered the school cap to 95 cents instead of a dollar five? [LB670]

DOUGLAS KAGAN: You know the TEEOSA, that formula seems to change every year, and there seems to be so many battles about it that... [LB670]

SENATOR ADAMS: But the point is, if you're at 95 cents, it doesn't matter what the battles are over at TEEOSA. [LB670]

DOUGLAS KAGAN: Yeah, it would be across the board in every county. I see what you mean. Well... [LB670]

SENATOR ADAMS: That's all right; something to think about. [LB670]

SENATOR CORNETT: Seeing no further questions, thank you. [LB670]

DOUGLAS KAGAN: Okay. [LB670]

SENATOR CORNETT: Next proponent. Opponents? Neutral testimony? Senator Pirsch, you're recognized to close. [LB670]

SENATOR PIRSCH: Great. Thanks for all the wonderful questions. Again, I just want to reiterate I'd be interested in working with the committee as to specific dollar amounts, but conceptually--and I know dollar amounts are always on people's minds in this kind of era of where things are transforming rapidly as far as our fiscal status. And I guess the key concept is, you know, when we have looked at property tax in the past and then certainly there's an element of that incorporated in this bill--of property tax relief. But that's a one...it's viewed as a one-time shot, to be a shot in the arm during this down economic time for the people. And I think the important part to emphasize is that this...there's another component which is a permanent component that I think we have to look at, which is the income tax component. And I think that, you know, you can look at it as...and I appreciate your comment of tail wagging the dog and saying should we look at income and sales when you're concerned about property tax. I think you can look at income, sales, and spending too, may be a part of the solution as well, but I think what we have to be concerned with is the big picture, is...you know, we have 1.7 million people in this state and a hundred years ago we didn't have that many fewer people in the state. And we need to look at where we're going and what's that going to take? And for it to take, for us to get to where we want to get, we need to bring job-creating companies to the state and people to the state. And that is going to require an

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

Revenue Committee
February 18, 2009

atmosphere, an environment, where a certain tax environment is present. And I think South Dakota has kind of showed us what the effects of looking towards that vision and working towards that vision is. And so that should be the goal, and then we work backwards from that. So I think when you're talking in terms of what economic development would entail, I think tax policy is probably your number one tool to get economic development, and so towards that income taxes is a huge chunk, so even given the situation that we're in now, I think we should be looking at doing something with income tax which entails a permanent basis--not just this property tax one-time shot. I don't think the companies, the job-creating companies, are going to be looking at what we're doing in the area of just property tax alone and saying that means something to me if I locate here in five years, ten years, 15 years, 20. But I think it would mean something if they say look, even in the down years and the years that all other states were struggling economically, they are fiscal minded conservative in Nebraska and that they actually recognize and indicate amidst this backdrop that they are interested in reaching this goal of job creation--a low tax environment--because they made steps, even in that economy, to indicate and to signal to companies and to the world that Nebraska is serious about income tax relief and a low tax environment. And so I think it would be a remarkable statement amidst this backdrop for us to make that statement with a bill similar to this, conceptually. And as far as the numbers are concerned, I'd be happy to work with the committee and tinker it so that, you know, in a way that everyone can agree on and, you know, be happy with--that it's achievable. So having said that I do appreciate your time; be willing to work with the committee. [LB670]

SENATOR CORNETT: Senator Dierks. [LB670]

SENATOR DIERKS: Senator Pirsch, this is a one-time bill that you've got for us...this is not...this is just for next year? [LB670]

SENATOR PIRSCH: Why, I appreciate that question and let me be, because obviously I haven't been very clear about it. Part of the bill is one-time; part of the bill is not one-time. Part of the bill is permanent, and that's the element, you know...we've been talking about other plans--other bills have talked about property tax relief, which is fine. In this economy, I don't have any beef with that. And this bill incorporates part of property tax. But that's a one-shot deal, right? But embedded in this bill, and I think even more important, is that there is a component that is not one-shot. And that's the part, portion that gives income tax relief. The property tax relief: one-time shot in this down economy. The income tax, once we change these rates, those rates go on forever and we're foregoing revenue--the state is foregoing revenue on an ongoing basis: I want to be up front about that. But I think it's the correct statement to make. Now if you're not happy with the exact figure that I'm putting out there let's talk about that figure. And let's see, in light of the most recent projections, what we have and what we can do. And the reason that I want to include, and I want to emphasize, this isn't a one-shot deal with income tax, is because I think it's important for the long term. Just because we're in a

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

Revenue Committee
February 18, 2009

down economy I don't think we can say, okay, our vision of the far-off future has to be put off and we can stop thinking about that. Even now, we have to be thinking about where we're going to be--how we're going to end up on top in 15 years, 20 years, 50 years from now. And I think, as part of that, this income tax thing will help send a strong signal that we're serious about making ourselves, on the tax front, a competitive environment, and I think it is really going to turn heads and put us in a better shape. I think just the fact that this economy has hit other states very hard, we're going to, comparatively speaking, look a lot better. But if we could do something to even increase and build on that which is, I think, make our income tax structure comparatively better looking even still, with this concept, I think we should follow that, so. [LB670]

SENATOR DIERKS: Thank you. [LB670]

SENATOR PIRSCH: You bet. [LB670]

SENATOR CORNETT: Seeing no further questions, thank you, Senator Pirsch. [LB670]

SENATOR PIRSCH: You bet, thank you. [LB670]

SENATOR CORNETT: That closes the hearings for the day, and I make a motion to move into executive session. [LB670]

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Transcriber's Office

Revenue Committee
February 18, 2009

Disposition of Bills:

LB121 - Placed on General File with amendments.
LB171 - Indefinitely postponed.
LB555 - Placed on General File with amendments.
LB670 - Indefinitely postponed.

Chairperson

Committee Clerk