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Revenue Committee November 22, 2024
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von GILLERN: Good afternoon. Welcome to the Revenue Committee's interim hearing. My name is Brad von Gillern, and I serve as the Vice Chair of this committee. I'm from Elkhorn, Nebraska, and represent Legislative District 4. Today the committee will hear 2 interim studies, LR314, Senator Clements, and LR435 from Senator Raybould. We'll have invited testimony only today. I'd like to introduce committee staff. To my left is legal counsel, Charles Hamilton, and to my far left at the end of the table is committee clerk, Linda Schmidt. Committee members with us today will introduce themselves, beginning at my far right.

KAUTH: Kathleen Kauth, LD 31, in Millard.

MURMAN: Dave Murman from Glenvil, represent southern part of Nebraska.

BOSTAR: Eliot Bostar, District 29.

von GILLERN: And?

DUNGAN: Perfect timing. George Dungan, LD 26, northeast Lincoln.

von GILLERN: Great. Thank you. We'll begin today's hearing with the introduction of LR14 [SIC]. Welcome up, Senator Clements.

CLEMENTS: Thank you, Vice Chair von Gillern, members of the Revenue Committee. I'm Senator Rob Clements, R-o-b C-l-e-m-e-n-t-s, and I represent Legislative District 2. I'm here to present to you LR314, an interim study to examine adjustments to county revenue sources to fund a phaseout of the Nebraska inheritance tax. The binder that you received, the-- you'll find that the items after the tabs were items provided by NACO. And what I'm going to make comments about will be the insert in the front of your folder, and I'll be, I'll be describing some of those exhibits as we go. Over my time in the Legislature, I've been part of efforts to improve Nebraska's inheritance tax structure to make us a more competitive as a state. I believe addressing Nebraska's inheritance tax is part of these efforts. It also has positive impacts on our families by preserving the state assets, increasing local private capital formation and encouraging economic growth. Inheritance taxes have been repealed by 45 states since 1925, with 14 of those states dropping the tax since the loss of the state tax credit-- state credit against federal estate tax in 2001. Nebraska kept its inheritance tax and remains the only

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state where it is paid to counties. Only 4 other states in the U.S. still collect inheritance tax: Kentucky, Pennsylvania, New Jersey, and Maryland. Iowa was the sixth state, but its inheritance tax will be phased out January 1, 2025. Nebraska Inheritance tax rates are drastically different based on how des-- a descendant is related to the deceased, whether a child, niece, nephew, or nonrelative. This is fundamentally unfair. Two people could jointly inherit a property with a nonrelative paying 15 times more than a child inheriting. In the 2024 session, I brought LB1067 to phase out Nebraska's inheritance tax gradually by 2028. It came a few votes short of passing on General File. Then I worked with Senator McDonnell on LB1363 to raise revenue for counties through the doc stamp tax for a smaller cut. That bill did not advance. I'd like to thank NACO for hosting several stakeholder meetings this interim. The counties have expressed interest in phasing out inheritance taxes if we can find replacement revenues. Over this interim, I've worked with NACO to come up with some ideas for revenue replacement. I want to also thank Jon Cannon and Candace Meredith for their hard work on preparing summary sheets on various sources of county revenue. And those are the sheets that will be in your binder. These sheets are in your packet, and from these suggestions I've proposed a list of possible revenue sources. The main ones I have selected include the documentary stamp tax, insurance premium tax, nameplate capacity tax, and the train car tax. Other smaller possibilities include updates to the marriage license, advertising, motor vehicle inspection, and distress warrant fees. The handout, titled County Revenue Sources, explains the changes in the estimated revenue generated for counties. So far, we haven't found enough revenue to completely eliminate the inheritance tax, but we can reduce it. So you should have a handout labeled Doc Stamp Amounts, that shows the current documentary tax allocation. The top is the current, the middle one is a possible reallocation, and the lower one would be showing what the change would be. And let's see here-- so I-- let's- I'll find that. Then there's another handout I'm going to be spending quite a bit of time on. The title of it is County Revenue Sources List. And I'm going to be going through that line by line. The changes for documentary ta-- stamp starts on line 1 of the county revenue sources listing. Documentary tax-- stamp tax funding of \$0.25 per \$1,000 goes to the Site and Building Development Fund. I'm proposing to transfer that to the counties. The fund would continue to function but receive new revenue, either from DED, General Fund requests, or individual bills. My staff researched the fund history

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and discovered this fund has functioned mostly as a flowthrough fund for bills, with \$47 million of flowthrough from bills in the last 8 years. There's a handout farther down in these papers that shows Site and Building Fund history if you'd like to take a closer look. Next item on line 1 is affordable housing. The Affordable Housing Fund would go from \$0.95 to \$0.90. The fund has been built up in recent years. And this year, \$12.5 million was transferred out to the rural health work-- Rural Workforce Housing, and \$12.5 million was transferred to Middle Income Housing. The fund would still get \$16.2 million a year rather than \$17.1 million. Behavioral health is the next item, still on line one. Behavioral health services would change from \$0.30 to \$0.25 to match the homeless shelter rate of \$0.25. It would change from \$5.4 million a year to \$4.5 million a year. Expenditures in behavioral health had been under \$3 million a year, and the unspent fund balance is \$12.6 million. So I don't think that would be hurting that fund. These first 3 changes, on line 1 show \$6.3 million of revenue with those adjustments. Then line 2 would show the effect of increasing the doc tax. The-- line 1 wouldn't change the overall doc tax, but line 2 would increase it by \$0.50, from \$2 and-- 2-- \$2.75 per \$1,000. That would add \$125 to a \$250,000 house sale, and it would generate \$9 million of revenue if we allocate it all to the counties, which is my proposal. Then skip lines 3-6, and jump down to line 7. The insurance premium tax was originally acted in 1951. Prior to 1985, counties received 25% of the premium taxes. Then the fund shares were increased for cities and schools and counties were reduced to 5%. I propose changing the state's share from 40% to 35% and increasing counties to 10% of the \$143 million total. This would be a \$7.2 million additional revenue. Next line is line 8, the nameplate capacity tax. The nameplate capacity tax was started in 2011 at a rate of \$3,518 per megawatt. Since then, property taxes have increased 85-- 86%, averaging 40-- 4.55% per year, according to the Department of Revenue, but this tax rate has never changed. If the nameplate tax had increased the same as property taxes, it would be \$6,560 per megawatt, a \$3,042 increase. With the current distribution of the tax, which goes to counties, schools, and cities and ever-- whoever, NRDs the county portion would be \$1.9 million of new revenue. Then-- that's line 8. Then line 9, if we could all-- if 100% of this increase would go to the counties, this would produce an additional \$7.8 million. The next item is line 10, the train car-- the car line tax, which is train cars. Currently, the \$5 million of train car line tax is distributed according to property tax distributions. So

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counties receive about \$550,000 of this amount. However, counties receive 100% of air carrier taxes. I propose to distribute the car line tax like the air carrier tax, so counties would receive all of the \$5 million of revenue. There would be no change in the tax rate. Schools would lose about \$3 million statewide, but equalization aid would offset some of that amount. Then the 4 other fees, back on line 3-6, NACO pointed out 4 fees which have not been updated in many years. These include marriage license, advertising, motor vehicle inspection, and distress warrant fees. I estimate these fee updates would produce an extra \$1.2 million of revenue for counties. NACO provided cost estimates to justify these proposed increases. The next sheet I'd like for you to turn is titled Inheritance Tax Change Proposals. Inheritance Tax Change Proposal sheet shows the current county inheritance tax revenue and the effect of changes in exemptions and rates. So the line, the line that says current, that's where we are now with exemptions and rates. And you can show that the total tax column shows \$93.7 million was actual receipts in the most recent year. This is based on-- this sheet is based on fiscal year 2024, inheritance tax reporting to the Department of Revenue. I would like to reduce Class 2 and 3 rates first, which penalize people who are not children. Line 5, if you go down, shows exemptions changing to \$50,000 for each of Class 2 and 3 exemptions, and 7% for the tax rate on Class 2 and 3. This-- then the tax change column shows \$16.6 million decreased revenue. That would be covered by lines 1-6, back in the county revenue sources. The subtotal that was after line 6 was \$16.5 million. And it will depend on the committee which of these revenue items they want to accept. If they accepted just that, then we-- the, the 7% raise is what we could go to. Then line 9, you'll see in bold, would lower the Class 2 and 3 rates to 3%, which would need \$27 million of revenue in the tax change column, which would be covered by lines 1-8, the subtotal after line 8 of the revenue sources hand-- handout. Then line 13 to the bottom-- the bottom line on the proposal shows \$100,000 exemptions for everybody and 0.9% rate for every category, and that could be covered by the grand total of revenue sources handout. If all the new revenue proposals are enacted, I'll be glad to work with the committee to determine which proposals you might prefer as we go forward. In closing, the survey by the Platte Institute in 2021 found that 78% of Nebraska voters supported repealing of the inheritance tax. Nebraska is losing retirees faster than we are gaining populations from other states. Our inheritance tax contributes to this outmigration. The inheritance tax is a very

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inconsistent form of revenue for most counties, where you could see that on the first chart, the graph, how it goes up and it goes down. It fluctuates wildly from year to year. The changes I propose would propose-- would provide revenue that would be more stable. I believe we can do better as a state in this area and give people more reasons to stay in our state and not leave. I thank you for attending this LR study hearing today. Other testifiers will follow me, but I'll be happy to answer any questions at this time. Thank you.

VON GILLERN: Questions from the committee members? Senator Kauth.

KAUTH: Thank you, Chair von Gillern. Senator Clements, when we were doing the inheritance tax debate this past year, there was a chart that showed how many, in some cases, years of inheritance taxes are held by some counties. Why wouldn't we just encourage the counties to-- I mean, they're talking about wanting replacement revenue. Wouldn't we encourage them to do either cost cutting or choose their own ways of increasing their revenue if they need to, and partly using up the balance in their accounts? Because I think one had 37 years' worth of tax-- collected inheritance tax.

CLEMENTS: Well, yeah. The report we had was over \$200 million total statewide.

KAUTH: Mm-hmm.

CLEMENTS: It does vary quite a bit. Some counties carry millions and some don't have as much. I believe the-- in speaking with NACO, they're trying to get NACO-- get counties to reserve more out of their general funds and not rely on the inheritance tax so much in the future. I think they have not carried very much in general fund reserves, which I also think would be the wise thing to do.

KAUTH: So wouldn't it be better for us to say as a state, rather than telling them what funds we are going to change, say, you guys figure it out because it's your taxpayers, it's your-- and they know their county intimately.

CLEMENTS: Well, that's why I proposed a 5-year phase-in so that they would have time-- it would just be gradually. It was like 1.5% a year of tax levy increase if, if they don't find cuts. It was very minor amount per year. You know, I was hoping that that would be acceptable.

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KAUTH: I still like that one better. Thank you.

von GILLERN: Other questions? I have a quick question, Senator Clements. If we look at the county revenue sources list, the-- I just want to make sure I'm understanding properly. Line 7 and line 9 would be shifts to the state-- or from the state, correct? Those are-- that \$7.2 and \$7.8 million, are those dollars that--

CLEMENTS: Yes.

von GILLERN: --the state is currently collecting now is the state would not?

CLEMENTS: On line 7, the \$7.2 million, the state would, would be a general fund reduction of \$7.2 million of insurance premiums. Line 9--

von GILLERN: Line 9, they're not collecting now.

CLEMENTS: Right. There would be a, a new tax.

von GILLERN: OK. All right. So if there was a-- if this was a-- an LB and there was a fiscal note, would the fiscal note be \$7.2 million?

CLEMENTS: Yes.

von GILLERN: OK. Thank you. Senator Murman.

MURMAN: Yes. Thank you. On line 10 of the sources-- county sources list, the \$5 million you mentioned. You're-- you would take some of that to re-- for property tax relief or I guess all of it, but \$3 million would still-- approximately \$3 million of, of that would be replaced through the TEEOSA formulas, so.

CLEMENTS: Much of it would be. Yeah, that's \$5 million that's allocated to counties, schools, NRDs. And schools, I used \$3 million because they're usually about 60% of the revenue, the property tax.

MURMAN: But that would be another source of revenue that would--

CLEMENTS: But I--

MURMAN: --have to be replaced by--

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CLEMENTS: I-- that would--

MURMAN: --the state.

CLEMENTS: That would reduce their resources in the TEEOSA formula and provide more state aid, again, would be a-- more likely a state revenue cost.

MURMAN: Yeah. Thank you.

von GILLERN: Any other questions? Senator Bostar.

BOSTAR: So if it would-- I mean, following up, right. So, you know, I don't know what share of that is really schools versus the NRDs and everything else, but if it did reduce resources, triggering a higher allocation through TEEOSA, then the fiscal note would be the 7.2 plus--

CLEMENTS: Might be \$3 million.

BOSTAR: Something like that?

CLEMENTS: That's right. I should have, should have noted that.

BOSTAR: OK. All right. Thank you very much.

von GILLERN: Seeing no other questions, thank you, Senator Clements.

CLEMENTS: Thank you. And I'll be around for closing.

von GILLERN: Thank you. Our next invited-- I'm sorry?

CLEMENTS: I'm done.

von GILLERN: Next invited testimony is Jon Cannon.

JON CANNON: Good afternoon. Is it Vice Chair or Chair von Gillern today, sir?

von GILLERN: Vice Chair. Well, I'm still Vice Chair of the committee.

JON CANNON: Yes, sir.

von GILLERN: Sitting in on behalf of Senator Linehan today.

JON CANNON: Vice Chair von Gillern, distinguished members of the Revenue Committee, my name is Jon Cannon, J-o-n C-a-n-n-o-n. I'm the executive director of the Nebraska Association of County Officials, also known as NACO, here to testify on this LR that we have before us. First, I want to thank Senator Clements for the very diligent work and, and the great partnerships that he has brought to this study. We very much appreciated his good faith efforts and also his staff, and to have to mention Dan Wiles and Mark Freeouf in particular, in working toward a common goal of trying to find adequate, sustainable replacement revenue, you know, in return for an elimination or a reduction of the inheritance tax. A few notes on policy background before I, I go too much further into that. And so, you know, the first question I always ask is why do we have the tax in the first place? You know, and why, why do we have taxes in the first place? You know, and taxes are there because as members of the Revenue Committee know, I hope, we want participants in the society to pay for what they expect from the government. And so what is it that we're having people pay for when they are paying things to the county? And you've heard me-- you've heard this refrain before. For counties, we pay for roads, bridges, law enforcement, jails, courts, elections, and also the infrastructure, the, the fair and equitable administration of all these, these things that come together to form county government. The first 2 pages of this, this section-- I don't, I don't have the exact same notebook that you guys have. Senator Clements had access to it and added a little bit more. The first 2 pages after his section, you'll see how did counties spend their inheritance tax money. And from that, you can, you can see the sorts of things that inheritance taxes have paid for in general. The next 3 pages are the inheritance tax receipts that we have by county over the last 3 years, coming up-- accumulating in a, a 3-year average. So I think that's also very helpful to look out. And then the next 4 pages show specific items and projects broken down by those counties who we had reply. So, we turn our attention to what we are going to tax. A tax is a government's accession to the combined wealth of the people that it governs or are subject to its jurisdiction. And so we need to look at the different modes of wealth and different inflection points for measuring that wealth. So in the property tax, it's the annual assessment of real property or per-- personal property as measured by its market value. For sales tax, it's when wealth is expended through the purchase of a good and maybe sometimes a service, depending on how far we want to go in our, in our next several legislative sessions. For income tax, it's

when wealth is increased through an income stream. And so the inheritance tax, it's when-- that inflection point is when wealth is transferred from a deceased to a beneficiary. There are pros and cons for each of these, these inflection points and each of these ways that we have of measuring it. But by and large, that is what we have here as far as the forming methods of taxation. And as you all know, counties are limited to only 2 of those incidences of wealth in their communities. We have a tax on property that comes from the annual assessment of, of the fair market value of property, and then we have when wealth transfers to an heir. Counties do not collect sales or income taxes. If I suggested that counties wanted to, I'm pretty sure Lynn Rex would be here in a heartbeat. Any other revenues that we may have are limited to transfers from the state, or federal governments, or the collection of fees that are specific to a service provided. And those fees are determined. They are set by the state. We don't get to say, you know what, marriage licenses cost \$50 for us to process. Therefore, we're going to raise them. We don't get to do that. That's, that's something set by the Legislature. And so, let's be clear. Nobody really likes taxes. I know I like to talk about taxes, but that's not quite the same thing. And in the abstract, absolutely. Nebraska's citizens are, are in favor of sharply reducing or eliminating every tax that there is. Some taxes are less favored than others. For years, we've been talking about the inheritance tax. And so because of that, we decided that we wanted to do a little bit of a study on that. You know, and I, I, I think what I'll point out is that what people like in the abstract is not necessarily what they prefer in practice. And so also as part of, of our packet, you'll have the results of a survey that I've handed out to this, this committee before about the inheritance tax. We commissioned a survey last year to find out how our citizens felt about the inheritance tax compared to other taxes and how they felt about the services provided to the county-- by their counties. And the citizenry said in a fairly overwhelming fashion that they did not favor eliminating inherent taxes if it meant that either property taxes would go up or the services they expect from their county government would be reduced. So there's a couple pages-- the next 2 pages I would, I would point out are titled Potential Property Tax Increases Due to Loss of Inheritance Tax Revenue, and that shows what the property taxes paid by the average homeowner. We took the average assessed value of single family residential in each county, and we figured out what the levy rate would be if the inheritance tax was not available for property tax

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relief in our, in our rough measure. And I'll note that in 5 of those counties, the levy rate goes over the constitutionally mandated 50-cent levy lid that we have as counties, and those will be Cheyenne, Deuel, Garden, Garfield, and Kimball. So a lot of this is information that you've received before. What we all heard when we were discussing inheritance taxes this last spring is that reducing or eliminating inheritance tax has to be accompanied by replacement revenue. We had a couple of efforts to look at replacement revenue in the waning days of the session as Senator Clements ably described, and the clock ran out on us. And I, I, I think it was a genuinely good faith effort to try and find a means of starting to reduce the inheritance tax and the counties' reliance on it. However, what we did discover is that we have some common ground for working on the issue. I know that particularly when it comes to the, the inheritance tax, NACO has probably developed a reputation justified, in my opinion, that we dig in its heels. By the same token, many of our folks in the county level have been conditioned to believe that the Legislature only wants to rip away the legis-- the inheritance tax without any consideration for the real damage it would cause to our citizens. So NACO did the unexpected, and we decided we were going to work with Senator Clements and other stakeholders. And so Senators Clements, Dorn, Raybould, Conrad, Dover, Holdcroft, Jacobson, and von Gillern were convened as a stakeholder group, as well as our friends from the Open Sky and Platte Institutes to really dig into what the costs of government are and how that's affected by the revenue streams that we have available to us as counties and-- otherwise, are subsidized through property taxes.

[HOWLING NOISES]

JON CANNON: I think it's exciting, too.

KAUTH: Somebody likes taxes more than you.

JON CANNON: We also looked at those things that are collected at the local level and remitted to the state, particularly the documentary stamp tax and the various motor vehicle taxes. So in advance of the stakeholder group meeting, we spent hundreds of hours discussing the cost of government with every level of county government that, that you've got in, in the courthouse. And we learned quite a few things. Not related to this discussion, I'm, I'm going to point out, though, every single office in the courthouse will tell you that mental health is affecting the cost of their services more and more, with increasing

frequency. And so, I-- something I, I was kind of surprised by, but in retrospect, perhaps I shouldn't have been quite so surprised. When it came to this work, NACO's deputy director, Candace Meredith, did the lion's share of the work with those subcommittees, and she'll go into further detail following my testimony. One last thing I should mention, actually, second to last thing I should mention, as Senator Clements had mentioned, a number of states have phased out the inheritance tax over time. Nebraska is the only state that has and the only state, I believe, that has ever had the inheritance tax go directly to its counties. For every other state out-- that's out there, the inheritance tax goes directly to the state and it just becomes accounting dust. And so, it was probably a lot easier for the state to say that we're going to swallow whatever those receipts were. The last thing I do want to mention is the constitution. Article VIII, Section 1 begins by saying that the necessary revenue of the state and its governmental subdivisions shall be raised by taxation in such a manner as the Legislature shall direct. I think it's notable that the second word of that constitutional provision is "necessary." The necessary revenue. If the state repose-- imposes requirements on counties, the duties that, that the Legislature puts upon us, and limits our ability to fund those duties, has the Legislature done its job of directing how the necessary revenues are raised? I won't go into the various ways that counties are already restricted in fulfilling those duties. That's a discussion for another day. And believe me, we'll be here for that. But I will say that the reduction or elimination of a revenue stream without adequate replacement makes the fulfillment of those duties very, very difficult. We are taking-- as counties, we are taking a huge risk by embarking on this journey when we're looking at a \$100 million revenue stream. I think it was \$96 million last year-- and breaking it into several smaller revenue streams as we're proposing. There's nothing that stops a future legislature from deciding to ratchet down a rate or removing a revenue source and appropriating it for the state's purposes. While everyone in this room, I, I trust you all implicitly, I don't know who's going to be sitting in your seats 8, 10, 20 years from now. And so we would suggest something as a safeguard for local political subdivisions in the constitution, something as simple as if the state, through legislative action, reduces or eliminates a nonproperty tax revenue stream previously available to a local governmental subdivision, such reduction or elimination shall be replaced through either an appropriation from the state, an alternative revenue stream, or both,

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as necessary. Thank you again for your attention. I want to again thank Senator Clements and his staff for their diligent partnership and the excellent work that they've done in presenting all this information for us today. I also want to thank the staff at NACO that has worked, I mean particularly, particularly on this, this issue, Candace Meredith, the NACO deputy director, Luke Bonkiewicz, our lead researcher, Riley Sigler, who's our education and community engagement specialist, Beth Farrell, who's our, our staff counsel. In particular, those folks have done an admirable job of getting this information collected and put in front of you today. I'm happy to take any questions you may have.

VON GILLERN: Thank you, Mr. Cannon. Questions from the committee? Senator Bostar.

BOSTAR: Thank you, Chair von Gillern. Thank you, Mr. Cannon, for being here. Proposing a constitutional amendment to say that we will just replace the funding-- nonproperty tax funding for counties if it was eliminated, why-- I mean, the counties are, are creations of the state, right? They're not-- their, their existence comes from the state. Everything about them comes from the state. Why should counties receive a special provision in the constitution?

JON CANNON: Well, I'm not suggesting that it apply only to counties, first. I, I would suggest that it apply to local governmental subdivisions. And the reason I do that is because Article VIII, Section 1 specifically refers to the state and its political subdivisions or its governmental subdivisions. If, if--

BOSTAR: But if we wanted to say, get rid of all the counties and take a different structure of local government, we could. We don't need counties.

JON CANNON: Well, except for the fact that we were referenced in the constitution several times.

BOSTAR: Sure. Sure. But you're-- I mean-- but we can make them what we want, regardless. In a scenario where-- OK. We talk about how the devastating impact of losing the revenue for the constituents in the counties if, if we were to eliminate the inheritance tax. Did NACO take a position of opposition when we reduced the income taxes?

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JON CANNON: No, we did not.

BOSTAR: Are the constituents that are served by income tax revenue the same as those that are served by the counties and their property taxes and their inheritance taxes?

JON CANNON: I would presume yes.

BOSTAR: So why did you not have a position that you cared about the revenue for the services in that case?

JON CANNON: Yeah. I think it's an excellent question, Senator. And I'll, I'll respond-- actually this kind of spills over a little bit into our, our next LR, which is, you know, what, what are the sorts of things that are required to be funded by the state and what are the sorts of things that are required to be funded by the locals? And, and I, I think on the property tax side, you know, there's a provision that we have in the constitution that the state shall not impose a property tax for state purposes. And there are a lot of questions as to what sorts of things are the counties doing or the locals doing that are state issues. And one thing I'll, I'll mention, just in particular, kind of a spoiler alert for the coming session, riparian vegetation management. The Republican River Compact between Nebraska and Kansas requires us to give, give a certain amount of water to the state of Kansas every year. And through the propagation of phragmites in the Republican River basin, we were, we were not able to meet our obligation to the state of Kansas. And so we went into our repairing and vegetation management program. We appropriated a certain amount-- and we were sued, by the way, by the state of Kansas, for 72 million bucks. We appropriated a certain amount of money and we said, we're going to have the weed superintendents in the various counties take care of these sorts of things, something that is clearly a state issue. The state of Kansas wasn't suing Hitchcock County, the state of Kansas was suing the state of Nebraska. But we decided that we're going to have the locals take care of those sorts of things. And, and the Supreme Court has ruled in the past. They've said, you know, there are certain things that, that the state and its political subdivisions do that have a mix of state and local results. And we're generally OK with that. But I, I, I think this gets to the heart of your question, though, sir, which is you can-- I, I, I guess you can, you can conceive of a, of a way that the locals and, and the state are bound up all together. And, and, and you know, we care just as deeply about

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the income tax and the sales tax and those sorts of things as, as perhaps the premise of your question would have us. But that's not the system we have right now. And, and gen-- I, I also think that if, if we did wade into the issue of income taxes or sales taxes, people are probably gonna look at us pretty funny. Like, what are you doing here?

BOSTAR: I understand. I think the point though, is if the position is, well, these are separate things and as you said, the state doesn't collect property taxes, we spend a great deal of time and effort and resources and energy and focus on addressing property taxation--

JON CANNON: And you do so very--

BOSTAR: --for the people of Nebraska.

JON CANNON: Yep. And you do so very ably, sir.

BOSTAR: Well, thank you. So I think if, if we are engaging in a holistic view of taxation for Nebraskans, even including taxes that we don't collect, we don't spend, we don't distribute, I think it makes sense for an organization like NACO, which represents all of the exact same people through constituencies that we do, to also take a broader view of taxation. If NACO is going to only take their piece, then why should the Legislature not do the same thing?

JON CANNON: If, if, if I'm, if I'm hearing you correctly, sir, then I mean, if, if, if we all retreat to our separate corners, I-- then you're right. The, the state, the, the Revenue Committee probably wouldn't have anything to say at all about property taxes. And we all, of course, know that that's not the case.

BOSTAR: Yeah. I think that would be wrong. I think that would be bad. I don't want us to do that.

JON CANNON: Sure.

BOSTAR: I don't think it makes sense.

JON CANNON: And, you know, and, and I guess my response to that, though, is that, as you pointed out, we're creatures of the state. And when it comes to how we raise our revenues, that's something that's going to be directed first by the Revenue Committee, and then, you know, once it gets onto the floor, by, by the full Legislature. And so

because of that, you know, we collect property taxes. We're going to be there for-- on property taxes. We don't collect sales and income taxes. Now, I, I would tell you that when it comes to any-- anytime that you guys discuss sales taxes to the effect that-- to the extent that it's going to affect local option sales tax, I don't want to speak for Lynn, Lynn Rex, but I suspect that they're going to be there testifying about it. Because that is something that has an effect on the cities for the duties that they have to collect those taxes in their locations. We don't have a sales, a sales tax, we don't have an income tax, so that's not a duty that's been assigned to us. And so therefore, I, I, I think that's probably why we don't show up.

BOSTAR: It's just, it's just-- I-- and I, and I understand. I get that logic. It's just if we're going to say the sky is falling because we're talking about eliminating one kind of tax, but at the same time, we're cutting all these other taxes that affect the exact same people and the services that potentially-- the capacity for services that could be provided to them, there's just a, there's just a discontinuity in, in sort of how that conversation happens and who comes forward about the impact that taxes have on people.

JON CANNON: Yeah, sure. I, I, I appreciate that. You know, and to the extent that if, if NACO has ever been perceived as saying that the sky is falling about inheritance taxes or property taxes, that, that's probably true. I will say not to say that the sky is falling, but I will point out that in 2023, counties collected \$865 million in property taxes for the county, and we collected just under \$100 million in receipts for the inheritance tax. And so the spend from county government was \$965 million. And removing a hundred million bucks, and that's, that's an 11%-- it's either an 11% increase in property taxes to make it up or it's an 11% decr-- roughly, 11% decrease in, in services to account for that. And so, you know, those, those are the things that, that we work with. 11% is a big deal. And we-- that would be hard for our citizens to absorb.

BOSTAR: The-- all right, last sort of subject on here. And I just-- I haven't sort of mapped out a scenario on this, but take the, the rail car tax, if that went just to counties. So I was trying to think about this. So if it, it-- some of it goes to schools now. And if it went all to counties but the county's not at their levy lid, then they

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would just have to levy for more. Our legalization wouldn't necessarily pick it up if they're not--

JON CANNON: For the counties?

BOSTAR: No, No. For schools.

JON CANNON: Oh, I, I, I, I don't know the answer to that, sir.

BOSTAR: All right. Thank you.

JON CANNON: Yes, sir. Thank you.

von GILLERN: Senator Kauth.

KAUTH: Thank you, Vice Chair von Gillern. Mr. Cannon, can you define necessary as, as you used the term, that you have to use these taxes for necessary things?

JON CANNON: Sure. I would say that's probably something that has the quality of being required.

KAUTH: Like what?

JON CANNON: Well--

KAUTH: I mean, is, is there a written definition of what are those necessary things that a county is responsible for?

JON CANNON: Yes. I would say that they are in Chapters 1-91 of the Nebraska Revised Statutes.

KAUTH: OK. So anything that, that is the, the mandates or the requirements a state has put on you are those requirements?

JON CANNON: Sure.

KAUTH: Has, has there been an audit of how the money has been spent to actually fulfill those requirements, to see if, if the requirements are the things that are being fulfilled first?

JON CANNON: An audit by--

KAUTH: By, by the counties, like every--

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JON CANNON: Every, every county is audited.

KAUTH: OK.

JON CANNON: Yes, ma'am.

KAUTH: OK. And so they can say, OK, here, we, we met our obligations. Like, 1-91 statutes, we met all of those. Then is their money left over or is there other-- are there other things that are being used-- or that, that money is being used for that are not required?

JON CANNON: I would be hard pressed to think of any, any situation where there are moneys being used by counties that are not either required or authorized by state statute.

KAUTH: OK.

JON CANNON: Now, what those spending decisions are by the counties, those are obviously-- those are subject to local control, which is something that we prized, we prized in this state for a long, long time. And so, you know, if, if the question is whether or not one county should have full health insurance benefits for employee and then partial health benefits for that employee's family, or whether they should offer health insurance at all-- some-- there's 2 counties that don't, that's a spending-- that's, that's a local decision that, that's being made. But it's, it's only made because it's been either required or authorized by statute.

KAUTH: OK. Thank you.

JON CANNON: Yes, ma'am. Thank you.

von GILLERN: Senator Dungan.

DUNGAN: Thank you, Vice Chair von Gillern. Thank you, Mr. Cannon. It's always nice to have you back in this room. I'm sure we'll see a lot of you next year, as well.

JON CANNON: Depending on how this, this whole hearing goes, yeah. I, I might not be back.

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DUNGAN: We'll find out. Do you have a copy of this sheet that we were provided by Senator Clements, with the 10 things listed as county revenue sources?

JON CANNON: Not in front of me. I, I think I set it aside when I was preparing for my testimony today.

DUNGAN: You don't have to-- I guess. But are-- you're familiar with it, [INAUDIBLE]?

JON CANNON: I am. I have seen it. Yes, sir.

DUNGAN: And you heard Senator Clements' opening testimony about that as well. Right?

JON CANNON: Yeah.

DUNGAN: OK. You were just handed a copy of that?

JON CANNON: Yes, sir, I was.

DUNGAN: OK. So, like, on here, we have 10 different sources that are, I guess, proposed, it sounds like, by Senator Clements, including 4 of-- lines 3-6, which are the increases in fees, which I know last session were things that we discussed with regards to regressivity and whether or not increases in fees have a disproportionate impact on certain parts of the population. Is it your understanding from your time in this working group that these 10 proposed revenue sources have been agreed upon by everybody? Is there a consensus that these are things that you all would be OK with? Is this NACO saying you'd be OK with these? Or is this just what Senator Clements, to the best of your understanding, is proposing?

JON CANNON: So we've, we've worked very diligently with, with Senator Clements. He's been a, a great partner throughout all of this. When we, we had the stakeholder group, we talked about a number of, of the things that are on this sheet. Some of them, as you had suggested, there's, there's questions about whether it's regressive or, or, or not. And it appears to me, I mean, you know, the fees that are listed on here, just in particular, you know, those are-- there's a lot more than just those. And, and so marriage license fees, advertising, delinquent taxes, you know, which is something that, that is, is required when you're, you're advertising for delinquent cap taxes.

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Motor vehicle inspections, those are probably less regressive in their nature. And, and I think those were selected because it was thought that they would probably meet with the least opposition. Now, in, in-- and, and Ms. Meredith is going to speak more to this in the, in the books that you have in front of you. There's a lot of information that we put together on the various fees, taxes, etc., that we collect or that we share in, in, in on a series of policy recommendations as well. And so to an extent that we informed the decision as to put-- whether or not these should appear on the sheet, we certainly did. However, we don't do any selecting. You know, we-- all we can do is recommend. And ultimately, if there's-- assuming there's a bill brought, brought next year, it's this committee that will make hay with, with whichever recommendations they go with.

DUNGAN: I know, and that makes sense. And I just, I just-- I guess I want to ensure I understand sort of what's being represented to the committee. Right? Is it that these are proposals being recommended by Senator Clements in consultation with a group of individuals, or is this in fact something that all of the group of individuals have agreed that this is what we should do, this is our proposal.

JON CANNON: Yeah.

DUNGAN: And I think those are two very different things.

JON CANNON: Right.

DUNGAN: And I think when presented with a list of 10 things, with an understanding that we got together with a bipartisan group of stakeholders and all of them now have said, this is what we should do, that's different than we talked with a number of folks and this is what some of us have proposed. And so do you have an understanding as to whether or not this is a consensus agreement from that working group or are these just recommendations based on conversations that were had?

JON CANNON: Sure. To answer your question directly, Senator, we, we never took a vote in. And, and so from, from that perspective, no, it, it would not represent a consensus. And, and frankly, the stakeholder group that we had, there were 14, 14 people on there. And, and frankly, if I-- I think if you put this sheet in front of them and said, you know, for, for whatever reason, if you said pick the, the 7

or 8 that you like the most out of this, for some reason you would get 15 different responses. And I'm just sure of it. And so, I, I-- I'm not going to represent this reflects a consensus, but what I can tell you is that we had the stakeholder group. We took a lot of input. And then the last probably for the last month and a half or so, really the conversation has been mostly between NACO and Senator Clements' office. We had our policy recommendations that we had put out there. And, and I, I believe that that was culled from those recommendations into the sheet that you see here in front of you.

DUNGAN: And as somebody who works in both the county government field as well as you've a background in property tax in general, are there any revenue sources that you believe or NACO believes would be also helpful for us to look at that are not reflected on this sheet? Are there other additional sources that you believe are being untouched with these proposals?

JON CANNON: Yeah, sure, and appreciate the question. So in the booklet that we have in front of you, I think it's after the yellow tab. And I, I don't know where, where in here it is, but there are some proposals for alternative revenue sources. You know, I'm not--I'll, I'll point out the first one that comes to mind. I'm not going to say it's, it's anything beyond a crazy idea. But, you know, we've, we've talked in various circles about an I-80 surcharge, you know, essentially a 2% additional sales tax on all retail sales made within a quarter mile of I-80. I-80 has-- is the last 5 years has had at least 4 billion travel miles on it every year. And a lot of those, those travel miles are by people that don't live here. You know, one of the things that we look for in tax policy is we like adequacy, simplicity, transparency, and we also like exportability. And so to the extent that people that are using our roads that don't live here and don't vote here, you know, to the extent that we can make them defray some of the costs that, that we bear, those are things that are all to the good. So that, that's just one, one suggestion. Again, I don't know if, if it has legs. I suspect the streamlining group would have some-- something to say about it, and perhaps the Federal Trade Commission. Who knows? The imagination is boundless.

DUNGAN: Nobody's always happy, right?

JON CANNON: Right.

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DUNGAN: Thank you, Mr. Cannon. I appreciate it.

JON CANNON: Yes, sir. Thank you.

von GILLERN: Other questions? I just have a couple. The in-- the inheritance tax are funds that are collected from inheritance tax, are those restricted funds that can only be used for certain items within a county?

JON CANNON: No, sir.

von GILLERN: So I'm looking at your-- the, the document that you provided about what these projects were funded from inheritance tax. If, if the money just went into general fund, how do we identify what they were-- what those dollars were spent for?

JON CANNON: Yeah. So typically in-- and I suspect Ms. Meredith will have a much better answer for you or at least more, more complete answer for you. So as those inheritance tax funds are, are collected, most counties will put them into a separate inheritance tax fund. When it comes time to expend those funds, however, they'll do a, they'll do a transfer from the inheritance tax fund to the road fund, the general fund, the maintenance fund, whichever fund it needs to go into. And from that, they will-- those, those different departments within the county will, will spend it as they see fit.

von GILLERN: So-- and maybe that answers my question. Douglas and Lancaster are not listed in this list.

JON CANNON: No, they are not.

von GILLERN: So presumably, the-- they went in-- those funds went into general fund.

JON CANNON: Yeah. The, the inherit-- so in, in, in Lancaster County, I know for a fact that they take their inherited fund-- inheritance tax receipts and they put them directly into the general fund.

von GILLERN: OK.

JON CANNON: And so it just becomes-- and, and so it, it directly buys down the property tax levy in Lancaster.

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von GILLERN: And again, and again, not, not nitpicking but un-- under Sarpy County, it says the funds were used for loan repayment. I would find that odd to be using a unpredictable source of revenue to be using for loan repayment.

JON CANNON: Well, the--

von GILLERN: Unless that was an accelerated paydown of the loan.

JON CANNON: The good news about the law of large numbers, sir, is that in Douglas, Lancaster, Sarpy, and also to a certain extent Hall and Buffalo Counties, those counties are large enough where they can, they can pretty accurately model what their receipts are going to be on a year-for-year basis. Generally, the people that do the modeling are going to be very, very conservative. And so if they're off, typically, they're, they're going to have more in receipts than, than they projected.

von GILLERN: OK. Thank you.

JON CANNON: Yes, sir.

von GILLERN: Do-- is there any way-- do the counties track at all the average size of the payment that comes in, the average size of the estate tax that comes in? And from that you could interpolate back to the average size of the estate. I'm curious whether these-- the average estate that gets taxed, is it a \$50,000 state-- estate, a \$100,000 estate, a \$1 million estate?

JON CANNON: I'm, I'm not sure if we have that, that information. And so, again, I will defer to Ms. Meredith. You're probably wondering, you know, why isn't she running the place?

von GILLERN: She's got some tough, tough stuff coming up here.

JON CANNON: Yeah. Some-- sometimes I wonder myself.

von GILLERN: At least she knows what the questions are going to be, though.

JON CANNON: Yes, sir. So she got a little bit of an advanced warning.

von GILLERN: All right. Thank you.

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JON CANNON: Yes, sir. Thank you.

von GILLERN: And lastly, not really a question but found it humorous that younger men are the most likely to find the inheritance tax acceptable, while older men are the least likely. Well, I was once a younger man and I understand that completely now. So.

JON CANNON: I-- my, my daughter doesn't believe that I was ever a younger man, but I'm with you on that. I feel your pain.

von GILLERN: Younger men don't have any money and they're never going to die. So it's not a-- not much of a concern. So. Any other questions? Senator Bostar.

BOSTAR: Thank you, Chair. Just to throw in the-- it's my understanding that Lancaster County's inheritance tax collections came in under their plan projections last year by several million dollars.

JON CANNON: Oh, that, that would be a surprise to me. OK.

BOSTAR: That's all I have.

von GILLERN: Thank you. Seeing no other questions, thank you, Mr. Cannon.

JON CANNON: Thank you.

von GILLERN: With great anticipation, we invite up Candace Meredith.

CANDACE MEREDITH: I, I changed my mind.

KAUTH: Run.

CANDACE MEREDITH: Yeah, exactly. No pressure.

von GILLERN: Welcome.

CANDACE MEREDITH: Hey. Good afternoon. Candice Meredith, C-a-n-d-a-c-e M-e-r-e-d-i-t-h. To answer that last question on averages, I was looking at our NACO team. We'll have to follow up on that question--

von GILLERN: All right. Thank you.

CANDACE MEREDITH: --because I'm not quite sure.

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von GILLERN: You understand why I'm asking that question?

CANDACE MEREDITH: Absolutely. Yes.

von GILLERN: Thank you.

CANDACE MEREDITH: We'll definitely follow up on that. So, yes. So I am here today to really follow up on the stakeholder working group that we did and the work that the NACO staff did on this project over the spring and the summer. So after this session, our NACO board of directors did approve for the NACO staff to put together an Inheritance Tax Working Group to study the legislation that impacts counties' revenues, under-- underfunded and unfunded mandates. Again, with the, the reduction or elimination of such a large amount of our revenues, we needed to-- we wanted to look outside of property taxes to see what we could do to help either look at antiquated statutes, you know, look at our technology, what we can do to modernize, and also look at our current revenue generators that we have out there and just really start taking that deep dive in. So what we started, again, right, we sit here in Lincoln at the NACO office. You know, there's only so much that we know. So we did start off-- created a whole bunch of subcommittees on every single office. And then we also did it by district. And then we also, even as Jon mentioned, we found in all of the conversations we had with the committees, the mental health component came up several times in different ways. So we found that quite fascinating. So we put together like, what we call like an HHS committee to explore what they're seeing out there and what challenges that they're going through, just to have that on record. So again, you know, April to now is a very short amount of time. So again, this study is still ongoing. But what I can share with you today is what we went over with a stakeholder group that Jon mentioned. And we really started taking a dive into some of our revenue generators or our nonproperty tax revenues to see if there was any opportunity for some sustainable revenue replacement that maybe provided more stability in our-- when we talk about small, medium and large counties. Because obviously not every county is different, not one size fits all. So what I'll, I'll talk about today here is just to kind of go through on a high level. Again, Senator von Gillern has been through this already, so it's probably going to be a little bit boring for him. But I just wanted to highlight some areas here, based off of Senator Clements' County Revenue Source List. We can touch on some of those. But this was basically put together for the stakeholders so as you

guys are, you know, looking at these sorts of revenues, what stakeholders are impacted? You just mentioned, you know, if we do one sort of revenue sourcing, it obviously shifts from one place or the other. So it's just something that we have to be mindful of when we're having these discussions. So we just wanted to put that out there for consideration, and what fits best going forward. So in the, in the packet here, we start with the documentary stamp tax, which is part of Senator Clements' proposal. So we just basically started off with what the purpose of the doc stamp is. Who are all the stakeholders that are impacted by the doc stamp that the counties collect? We also put a financial analysis together and some recommendations. The one thing I want to note about doc stamps in particular, when-- if we're going to talk about a reduction in our Class 2 and 3 overall percentage decreases, we just want to be mindful of the law of large numbers. So obviously, when we start decreasing, you know, there's enough in the large counties that the impact-- this will impact, you know, they'll, they'll be somewhat OK, depending on what threshold they go. But small and medium counties, obviously, there's not a lot of transfers going on there. So the, the-- there's not really good split there. But the good thing about it is we can forecast what our doc stamps are. It's a, a more steady stream than, I would say, an inheritance tax. So that's just what I wanted to note on that. Marriage license, also. And again, what this found-- we found out pretty quick, especially when after the special session, we started tack-- tackling modeling on-- going from the lid on restricted funds to the cap. We also have started looking at, you know, other property tax relief mechanisms because the two obviously go in hand in hand. So there's a lot of fees that are in statute that haven't been updated in quite a long time or really are under the cost of the service that the county is providing. And so what we also did when we're looking at this, yes, it was an inheritance tax study, but we also found that there might be opportunities for the property tax relief in between the two. So they do go hand in hand. So we did-- in some of these, you'll see like what our surrounding states around us, what they're currently charging for marriage licenses, just to give us an idea, are we under, are we over, you know, where, where are we at? So we did includes that information as well. So that's in there for your, you know, consideration to review. The one thing that we would like to consider going forward when we talk about these fees, it's been somewhat of a sensitive, sensitive issue throughout the years, but either having some sort of review of fees to make sure that the cost is, you know, in line with

the actual fee. So as we get into inflationary environments, times change, that we can properly accelerate what that-- again, that little bit more local control that you were talking about, Senator, giving us a little bit more authority to kind of move in that direction that we need to go, by local decision. Next, we had advertising fees. So our advertising fees are basically the fees that we attach to delinquent taxes. The treasurers have to report-- publish in a newspaper very specific details about the delinquent taxes. So they have to put-- now they have to put names, they have to put addresses, legal description, amount. It's, it's gotten quite expensive. Publication is not cheap. \$2 is quite-- doesn't even touch what the tens of thousands of dollars it costs to publish 3 lists in-- so we have to do 3 consecutive Saturdays, they have to report that list. In addition, they have to also report on their website and to the Nebraska Department of Revenue, just to make sure that we're transparent, that those homeowners know that their taxes are delinquent. So the cost of advertising has gone up quite extensively. So we gave you the numbers on what that looks like on average. Next on Senator Clements' proposal, there was the motor vehicle inspections. Motor vehicle fraud has become a little bit more intense. This is getting kind of creative. Sometimes these things are time-consuming. Go-- you know, going from \$10 to \$20, it's still right there in the, in the national average. Again, just really compensating for those very specific things that we have to do statutorily to make sure that we have-- we mitigate fraud and theft. Again, distress warrant fees. So distress-- it's kind of scary word, but this-- distress warrant fees are basically the mobile home delinquent taxes. So if mobile homes and personal property taxes go delinquent, the treasurer will give a report to the sheriff, and the sheriff is responsible for collecting those taxes. And so, again, \$2 for the administrative costs for a sheriff to go out and collect all these taxes is just, again, quite minimal and does not definitely exceed the cost. So it's really going over to property taxes at this point. Insurance premium tax. Again, that's another tax that is out there. We do get a very small portion, at this, at this time. We get basically 10% of a fif-- 10% of the insurance tax fund. That has changed over time. We used to get more back, I think it was predated in the 80s, but that was changed by the legislation and cut back tremendously. So we lost some revenues there. So Senator Clements has that in his proposal as a recommendation to increase a portion to the counties as an offset to revenue. Again, this is one of those things that's kind of a, a, a risk for counties

if we're going to talk about revenue replacement for inheritance tax. That's why that constitutional amendment might be, you know, an optimal solution, so it doesn't come back on property taxes later on, because the counties still have to provide those essential services to the citizens. The nameplate capacity tax on these worksheets. This, again, this is not in all counties, so I just wanted to-- again, when we're talking about revenue replacement for all 93 counties, nameplate is not in all 93 counties. So we want to be mindful of that revenue. We do appreciate Senator Clements bringing this forward because it does-- I think it is time for a review. It's been the same for quite a while, so we appreciate that we're having the conversation to look at this and work with the stakeholders in this area to see where we need to be, to be fair and equitable with that nameplate capacity tax for solar and wind energy taxes. But again, a little leery about this, you know, with revenue, revenue replacement for inheritance, because, again, not all counties have this tax right now. Next, we have the air carrier and car line. So as Senator Clements mentioned, air carrier counties get 100%. Again, the car line just-- it was another opportunity in his proposal to switch that over, but understanding the stakeholders being the schools, getting a larger portion of that can impact that formula as well. So-- and again, that's mentioned in those recommendations. And this one is the-- next one I'm talking the motor vehicle taxes one. I'm, I'm pretty excited about, and I'm hoping this comes up. When we look at your little pink slip here, again, when we were working with Dan and Mark, talking about-- through these a little bit in more detail after the stakeholder meetings, we got into some great conversations about our pink slips and how high a cost it is, and, you know, taking a deep dive in that now. This is another one where, you know, there's the motor vehicle taxes. You'll see in here motor vehicle taxes. Right now, there's-- you have detail of what that looks like for motor vehicle-- to find the motor vehicle tax, there is this motor vehicle-- 2023 motor vehicle taxes sheet that the Department of Motor Vehicle puts out to let you know how much money is being distributed. But there-- I think there's opportunity there in maybe a possible hearing or further discussion on how maybe we could possibly look at our motor vehicle taxes and fees structure, and how those funds should be distributed going forward. Again, it takes a lot more time and diligence and thoughtful process to go through and revamp that. But we've heard a lot in the news about, you know, a lot of, a lot of cars are either not licensed or licensed in different states. You've seen a lot of those articles. So maybe take-- it's time

to take a look at this area and see what opportunities there, there might be in the future for that. So-- and so there's motor vehicle taxes, motor vehicle fees, against motor vehicle sales tax. So this is another thing that the counties collect on behalf of the state. The counties do keep a small portion of that, and then the rest is remitted to the state. Now, from the state, the state, then, you know, some of it goes to the Department of Transportation, and then other parts come back to the cities and counties to help out with some fees for infrastructure. So, again, taking-- maybe taking a look at the sales tax opportunities there to look at that distribution factor to make sure we're building-- we're all in common area to keep our infrastructure strong. Title fees is, is another one, as well. Title fees we also discussed. Again, we're a little light with these \$10 a title fee, again, kind of tied back to, you know, fraud, fraud prevention. And then motor vehicle prorate tax is another one to look at. This is a distri-- a distribution based off of the the [INAUDIBLE] as well, so something that we can also look at in the future. The one thing that I would say that when we're talking, when we're talking with a stakeholder group, which I think we had really great conversations on, was the civil fees. That's where it got a little bit, we're like, we need to take a little bit closer look at that. We did visit with Senator Conrad this last week about [INAUDIBLE] I did, last week, about these civil fees. And, and he-- she was going to take a look at them and see what opportunities there might be to either, either re-- eliminate some of these fees because some of them are so small it's like, why are even going there? It costs more to collect than it's worth-- and maybe putting some more emphasis on, on some common ground and things that maybe could be increased to help offset administrative costs. So just continuing to have that conversation with Senator Conrad to get her insight has been quite helpful. And then as far as the new ideas that came through those subcommittee meetings, I just wanted to share with you guys. Again, a lot of great ideas out there, but I wanted to capture some of them. Jon did mention the interstate surcharge. Another idea that came out of the subcommittee groups was, again, we haven't really studied it, just threw it out there, was the local taxation on medi-- medical marijuana, county sales tax with voter approval, you know, supporting the increase of legal documentation of motor vehicles, again, with that fraud protection. Another one was considering like a partial exemptions on high-value parcels, so there's lots of real estate tax exemptions. There's quite a few motor vehicle tax exemptions.

Obviously, the increase in valuation, maybe looking at partial exemptions on some of those higher values, or even possibly doing a review of what we have going on with our motor vehicle exemptions and property tax exemptions as well. So those were some ideas that came out of the committees. The other thing I just wanted to bring up, too, that Senator Clements talked about is we, over the last 2 years, we've been working with the State Auditor's Office on cash reserves. Again, some of these cash reserves are very small because there's been a reliance on the inheritance tax to use that as a cash reserve. So we've been working with the Auditor's Office as well as National GFOA to build out some templates to help counties forecast, because it's just not a normal business where you have to have 2 months of operating supplies, you have to be responsive to snow emergencies, you have to be responsive to a bridge going out, you have to be responsive to a road being washed out. High dollar expenses, so you have to be responsive. Because unfortunately, if you don't have enough cash, you have to go to loan or a bond, and that is then causing more money to have to be-- have to go off through property taxes, unfortunately. So having good cash reserves on hand will actually end up reducing the burden for the citizens when they-- you don't have to account for interest like that. So we're working with-- working on that, getting that education out. And as I said, this is a work in progress. We have a lot of things in the hopper when it comes to unfunded and underfunded mandates. We decided to tackle the, the, the behavioral health concerns that we have in the jails, in our nursing homes. So that's taken quite a bit of time, because it's, it's-- there's a lot of information out there. We want to make sure our content is accurate, so that's what we're currently working on. But in the meantime, I'd be happy to answer any questions. And just thank you for your time. Thank you to Senator Clements, Dan, Mark, appreciate it.

von GILLERN: Thank you for your testimony. Questions from the committee? Senator Kauth.

KAUTH: Thank you, Chair von Gillern. So all of your testimony is focused on raising taxes, which-- I mean, raising the costs, raising the fees. Are there any cost-cutting measures we can do as far as getting rid of some of those statutes, and, and cutting expenses that way so that you're not being mandated to do certain things? You know-- and we have 93 counties. Are there ways that they can be combining with each other? Maybe not a consolidation, but working together to say, OK, you take care of this and-- it, it just seems like the answer

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cannot be to continuously raise fees to lower taxes. That, that's not going to be effective long term. We're still taking more money from people.

CANDACE MEREDITH: Sure. So I believe that the underfunded and unfunded mandates are-- we've already uncovered some antiquated statutes and we're like questioning, why are counties doing this at this point, or are there private companies out there that are supporting these services that we're required to do? So I would say I, I believe that there is. There's, there's been some really good conversations with these subcommittees, who are like, why are we-- this is from 1957, why are we still doing this? So, yes, I do think they're out there. We just wanted to try to get something. And the, the ease-- the easiest thing for us right now to do is the revenue generators, just to kind of go through that, because that information is quite readily available to us. The second question is interlocals. There is-- I can't even probably count how many interlocals there is. I mean, the auditor has that information, but there is tons of interlocals. And it's just not county to county, it's county to city, county to village. There's a lot of sharing that happens out there. Obviously, we see it in, in the city, like for-- coming from Lancaster. There's a lot of cities, Lincoln, Lancaster, I know Douglas and, and Omaha do a lot of sharing, Buffalo and Hall-- Buffalo and Kearney are a great example of their law enforcement. If Neil [PHONETIC]--

KAUTH: Yeah, that's what I was thinking.

CANDACE MEREDITH: --were here he would tell just an amazing story. I get goosebumps every time I hear what they do. But there is stories all over where we do do that. And I think, you know, just in my 5 years of being in-- at NACO, I'm just so impressed with the thoughtfulness that happens at the county level, when they think about how they can partner up and do things like that. I've even heard story-- where like-- Keith County. I remember talking with a former highway superintendent about how they share equipment with each other, in Ogallala, Keith County, and across the border, just to save on costs. So one will buy one piece and the other one will buy another one and then they'll swap to save money. So those are-- there are stories out there. You just probably just don't hear about them.

KAUTH: OK. Thank you.

CANDACE MEREDITH: Yeah.

von GILLERN: Thank you. Other questions? Senator Bostar.

BOSTAR: Thank you, Chair. The insurance premium tax?

CANDACE MEREDITH: Yes.

BOSTAR: Can you tell me how that 5% is distributed to counties? What, what sort of methodology is used to actually distribute it?

CANDACE MEREDITH: So there is-- are you-- currently, under that insurance tax fund?

BOSTAR: Yeah, currently.

CANDACE MEREDITH: So what happens is the state will give the county the premium amount, and that premium then will be distributed to the-- no, I'm sorry. Each-- the school gets their portion. Let me go to insurance here. I'm sorry. I'm thinking motor vehicle prorate tax.

BOSTAR: So the counties get 5%-- they get 10% of the insurance tax fund, which is--

CANDACE MEREDITH: Yes.

BOSTAR: --5% of insurance premium tax collections.

CANDACE MEREDITH: Correct. So the, the state of Nebraska will send the, the counties' portion to them for deposit.

BOSTAR: And how is the counties' portion determined?

CANDACE MEREDITH: That, I-- let's see here.

BOSTAR: That's really what I'm trying to get at, is how do you-- how is it decided, you know, Boone County, how much do they get of that pot? Lancaster, Sarpy, how does-- what's the formula?

CANDACE MEREDITH: I will have to get back to you on that one.

BOSTAR: OK. Thank you. And, and you, you talked, actually just relayed it. You talked about the-- that historically, this looked different.

CANDACE MEREDITH: Correct. There, there was a time, I believe it was in the 1980s, the formula was changed.

BOSTAR: What did it look like before?

CANDACE MEREDITH: I believe-- do we have that in here? I want to say we put it in here. Oh, here it is. The insurance premium tax was originally enacted in 1951. Prior to January 1985, counties received 50% of the fund, and then the fund was expanded to allocate 30% to municipalities and 60% to schools.

BOSTAR: So counties received 50% of the--

CANDACE MEREDITH: The insurance ta--

BOSTAR: --the insurance tax fund?

CANDACE MEREDITH: The portion of the insurance tax fund.

BOSTAR: Do you happen to know what the other 50% of that was at that time?

CANDACE MEREDITH: But I can find out.

BOSTAR: Thank you.

CANDACE MEREDITH: Yeah. Sure.

von GILLERN: Senator Dungan.

DUNGAN: Thank you, Vice Chair von Gillern. And you answered some of the questions I had earlier for Mr. Cannon, so I appreciate that. A couple of things I wanted to touch on, though. So going back-- again, I think Senator Kauth might have made some of the points I was going to make with regard to fees, but I missed the first part of that. You discussed in your testimony the fact that-- based on your analysis, the fees are not keeping up with the cost of the services that the fees themselves are being used to administer, right, so like marriage license fees and things like that. What we're proposing here, though, is an increase in those fees in an effort to gain more money, to then use that to pay for additional services beyond just the administration of that individual thing. Right? Because if we're trying to, if we're trying to make up replacement revenue for what inheritance taxes are used for, we're essentially saying we want to increase the fees to a

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high enough point that A, it pays for the service of that individual thing, and then B, gains enough revenue to also replace whatever inheritance taxes were being used for as well. So it sounds like the proposal for the increase in fees is beyond what it costs to administer that service. It's actually increasing to also make up for that lost inheritance tax revenue. Am I understanding that correctly?

CANDACE MEREDITH: Yeah. I think it's, it's, it's a protection to protect the property taxes as well, once you start thinking about, you know, what the cost is to do a service. Again, we have the technology. And technology, you have cybersecurity, you have-- there, there's a whole bunch of levels that go into the software, and then you have the people that still need to run that. And so when you think about the, the cost per service in-- for these very specialized type things like marriage license, or an individual's car inspection, things like that, you want to-- is that-- should that be-- the burden of that, should that go to-- more towards the person that's asking for it, or should that-- because that other resource that we have, obviously, is an inheritance tax, and property taxes are our main sources.

DUNGAN: No, and that makes sense.

CANDACE MEREDITH: Yeah.

DUNGAN: And perhaps we're getting even more into like the philosophy--

CANDACE MEREDITH: Right.

DUNGAN: --of who should pay these taxes, but--

CANDACE MEREDITH: Bringing him back up.

DUNGAN: I'd be curious to know. And you may not have this information on hand, but the amount of individuals in the state of Nebraska who are affected by the inheritance tax every year, do we know how many people pay the inheritance tax? I'm sure that no-- that number has to exist. And I guess the, the--and maybe somebody else can answer this. But the bigger question I'm asking is if we get rid of the inheritance tax, my curiosity would be, are we getting rid of a tax that's paid by a lesser amount of people and asking for a larger amount of people to pay more money to make up that difference. Right? If you have 10 people who pay a tax and we get rid of that tax, and then you ask 90 or 100 people to pay a little more on a bunch of other things, are we

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asking a bunch of more people to make up the difference for what is only affecting a smaller proportion of people? Now, again, maybe that's the right thing to do in some people's eyes, or not.

CANDACE MEREDITH: Sure.

DUNGAN: It's getting to the philosophy, but I'm trying to figure out, increasing these fees affect a very large swath of people in the state. And they affect those people in what I perceive to be a very fairly flat manner. Right. And in doing so, we're asking that money to make up the difference for what's maybe not affecting quite as many people. That would be my concern. So the numbers on who's affected by the inheritance tax I'm curious about, especially as it is proportionate to the individuals who are utilizing the fees and the services that we're talking about increasing revenue from on this list. Part of a broader conversation. Maybe somebody else has more of those numbers. And the last question I had for you then would be in your sort of analysis of this and working through these working groups, have you seen or what is the effect on inheritance taxes or finding revenue replacers with the new hard caps that have been put in place over this last legislative session? Right? So we've seen now these new caps on political subdivisions. Does that play into the analysis that you're seeing with regards to finding revenue replacers, or what is the interplay between those 2 things?

CANDACE MEREDITH: Sure. Yeah. That, that's a, that's a good question. Obviously, we don't know what we don't know yet. We've been doing a lot of modeling going from the lid unrestricted funds to the cap environment. Obviously under a recessionary year, this is something that's new to us. I-- you know, the, the, the counties, the cities are going to have to still keep their essential services. They still have to go to calls, you know, and they'll still have to go-- respond to snow emergencies, and they'll still have to take care of that bridge. So it is obviously a concern, especially in recessionary years right now. But I think there is an interplay. I think the one positive thing that did come out of the-- with going from a lid on the restricted funds because a lot of the restricted funds are revenues that would draw down the authority of the property taxes. So under the cap environment, these revenues right here are going to be outside of that authority to help us, you know, grow with what we-- the services that we need. But right now, counties just don't have a lot of restricted funds into the lid. And so at this point, you know, our reliance on

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property taxes is, is quite heavy, just because we just don't have a lot of revenue sources to-- outside of property taxes, inheritance tax to do that. So-- but it is definitely something that's in the back of our minds, especially I think when we start talking about unfunded and underfunded mandates. A lot of the, the info docu-- documents, I always call them one-pagers, but not one of these turn into one-pagers. But the info doc, it's really showing that there is opportunity there to really look at those and see what opportunities there are to maybe look at those statutes, like you mentioned, Senator.

DUNGAN: Thank you.

von GILLERN: Any other questions? Seeing none, thank you for your testimony today.

CANDACE MEREDITH: Thank you.

von GILLERN: Next up, we invite Mary Ann Borgeson. Good afternoon.

MARY ANN BORGESON: Good afternoon Chair von Gillern and Revenue Committee members. My name is Mary Ann Borgeson, M-a-r-y A-n-n B-o-r-g-e-s-o-n. I'm the Douglas County Commissioner. As you may be aware, counties have generally been opposed to the elimination of the inheritance tax, as this revenue source is one of our few sources that we receive in order to perform services mandated by the State Legislature. Douglas County generally collects between \$15 million and \$19 million of inheritance tax annually, with the very recent amount exceeding \$20 million. A loss of such a significant amount of revenue, which has been relied upon for decades, will result in some consequences to our services. And this, again, keeping in mind that counties overwhelmingly rely on the property tax, and we do not have options to seek alternative revenue options such as sales tax, wills tax, occupation tax, user fees, et cetera. So the majority of Douglas County's inheritance tax revenue is used to fund counties, community mental health center, general assistance, health department, veterans services, et cetera. These are very important health and human service functions that primarily serve those in our counties that are in most of need. Without any equal permanent replacement revenue source, the elimination of the inheritance tax could result in revenue loss and service reduction. The county board would have to either significantly cut certain services or increase our property tax levy. An approximate

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increase in the property tax would be about a 2.5 cents that would be required to level the health and human services, to maintain those. So eliminating the inheritance tax does not result in any tangible benefit to the overwhelming majority of Nebraskans. And yet, if eliminated, this actually could result in a consequence for some residents, potentially in the form of overall service reduction and/or property tax increases. Either or both could occur. And in consideration that a majority of county services and expenses are directly state mandated, such as public safety, corrections, maintaining local and state courts, among others, wide-reaching consequences could occur. So I basically just urge the committee to consider these possible consequences in our discussions going forward. And I, too, would like to thank Senator von Gillern for being a part of our committee and Senator Clements for being a good partner in these discussions. You know, I, I can sit here as a county commissioner and I can say, you know, nobody likes taxes, but we have-- depending on it, because the only other source of revenue that we really have is property taxes. So we are about 13% of the property tax pie, the total pie. 13% is what we are, as, as county. And we have about 30 unfunded mandates that equate, equate to about \$78 million. And Senator von Gillern-- or Senator Bostar asked about how many in Douglas County. There's 0.02% of our residents are affected by the inheritance tax. That's just in Douglas County. I don't know about the state. So with that, I would take any questions.

VON GILLERN: Questions from the committee? Senator Kauth.

KAUTH: Thank you, Chair von Gillern. Ms. Borgeson, I have some questions about cost cutting, and if you're spending the money wisely. And I want to ask you about the Juvenile Justice Center, which, how much should that cost to build, from [INAUDIBLE]?

MARY ANN BORGESON: 28, 27.

KAUTH: And it's not being used.

MARY ANN BORGESON: It's not open yet, no.

KAUTH: So, and how much is it costing to keep it active?

MARY ANN BORGESON: About \$20,000.

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KAUTH: A month?

MARY ANN BORGESON: Mm-hmm.

KAUTH: So you're spending \$20,000 a month to keep a building that costs how much to build?

MARY ANN BORGESON: About 27.

KAUTH: \$27 million. And it's not being used.

MARY ANN BORGESON: Correct.

KAUTH: So when you look at, at how you're spending the county's money and saying that you'd have to replace it with some other tax, I'm just wondering if the inheritance tax kind of makes things a little bit invisible, so there's not much transparency. Because people don't see that as being-- I mean, if you have to raise property taxes, people are going to look a little closer at how the money is being spent.

MARY ANN BORGESON: Mm-hmm. Correct.

KAUTH: So I'm really concerned with, with what I see as very, very poor spending of taxpayers' money in Douglas County, and then asking for more or not being willing to get rid of one.

MARY ANN BORGESON: And that's a very good example of where we have as counties, we don't-- we're-- we have no authority of who comes in or goes out. And one of the things we ran into when we started to plan the new center, our numbers were actually decreasing in terms of the number of youth. We actually increased the alt-- juvenile alternative initiatives tremendously.

KAUTH: That's, that's-- when I've talked with the county attorneys and, and the sheriff, they, they say that they had advised you that you would need much more space.

MARY ANN BORGESON: Correct. So we were originally at 48. We met with them, and it went to 64.

KAUTH: And they said you needed actually more than that.

MARY ANN BORGESON: It-- they agreed on the 64. And then we would-- if you look at our numbers, we had a plan basically laid out for the

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months that we would need to transition to that new one. And then we did. We started to see an increase in juvenile crime like we hadn't seen in the past. And so it was decided that we would hold off until our numbers were reduced so we wouldn't have to run both facilities at the same time. And so--

KAUTH: So again, you're spending \$20,000 a month of taxpayer money that's being taken from people who are working very hard to pay their own bills to keep a facility open that is not being used?

MARY ANN BORGESON: Yes.

KAUTH: And I-- again, I have problems with not looking at cost cutting measures and determining what are the priorities of the county so that you can cut some things--

MARY ANN BORGESON: Right.

KAUTH: --and not depend on inheritance taxes.

MARY ANN BORGESON: And, and we do. I mean, like even if you look at juvenile and you look at adult. If we didn't have the community corrections programs and juvenile detention alternatives that we had, we would need way bigger facilities. So what happens in the juvenile system is we have kids that are sitting in there for months and months and sometimes years, depending on how they're charged. And a lot of that is not under our control. So they come in, probation and the judge decides if they come in or they don't, and then once they're in there, it's the judge and probation that decides where they go. And then here's a good scenario, is Johnny's going to go to Boys Town, but Boys Town doesn't have a bed for 3 weeks, so the child just sits there. Well, that takes up a bed. Again, the detention center isn't a placement. It is just a holding place until the judge decides where that juvenile should go next.

KAUTH: That's still not being used. I mean, that, that's my point, is--

MARY ANN BORGESON: Right.

KAUTH: --you have something available and you're paying for it to not be used.

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MARY ANN BORGESON: Right. So--

KAUTH: So I don't think the county is spending their money appropriately. And I, I would prefer to see you guys figuring out what the actual priorities are--

MARY ANN BORGESON: Yeah.

KAUTH: --in the county, and get rid of some of those that, that don't need to be done.

MARY ANN BORGESON: Like?

KAUTH: I don't know. That's, that's-- I, I--

MARY ANN BORGESON: Oh. Well, so that's-- and we do that every budget year. So we look at-- we could get rid of all of our alternatives. But then, again, you would have to-- where would you put the children? They would go into a facility. So you would need a bigger facility and a much more expense. So what we're doing right now, is we actually are in conversations with the state, to say is there a partnership for-- you, you need space for kids. We have space that we could maybe utilize together. And so we're waiting for some numbers and proposals from the state, to say can we partner in the use of this facility together? And again, there's going to be some children and there has been an increase in children being charged as adults, because of some of the horrendous crimes that they have committed. So they're going to stay there for a lot longer than a child who's picked up for, you know, shoplifting or something. And those kids should be able to be moved through more quickly than what they're being moved towards. One of the things probation runs into, because they're the ones who have the authority to say where that child-- or recommend to the judge where that child goes, is they're running into capacity issues at programs. They don't have enough capacity, the place don't have enough staff, or maybe they don't have the right type of program or service that the child needs to go to. So that's all looked at on a continuous basis all the time. We have meetings with huge child and youth committee to say, what can we do? Who can we work with? We've gone after many grants to try to figure out maybe that's a service that we could be providing or a program through grant dollars rather than property tax dollars, to get them started and get the children to be moved more quickly. We've used the home monitoring program and added

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stability services so that there's more services wrapped around that child and family. So we look at that all the time. And it's the same way with the adult corrections, as well. And that population, we've actually decreased. We're at the lowest that we've ever been in, well, my 10-year anyway. But again, it's because we look at what, what, what are the folks being brought into and what are their needs. And so our pretrial program is a good example. We had every player in the judicial system that touches a person sitting at the table, and they had to basically help write and sign off on their piece of the pretrial program. So everybody was on board with it. And it's working. I mean, it, it is working. We have saved, just this last month, I think the number was over \$600,000, for people that did not have to just sit in jail and wait for a court date, but that they were on the pretrial status. And so we are trying to look at things. Community mental health center, same thing. We look at how we are able to get someone in recovery way quicker and keep them in recovery, rather than continually have them come back, go through the ERs, and then end up in our facility again. So we do that with, again, through our budgeting process, but on an ongoing basis through our committee structure when we meet with staff.

KAUTH: So do you have a list of the statutes or the regulations that could be gotten rid of that would help you save money?

MARY ANN BORGESON: So I have a list that I can get you of the unfunded mandates that we have.

KAUTH: Mm-hmm. Yeah, that would be great.

MARY ANN BORGESON: And the underfunded, as well.

KAUTH: I would appreciate both of those.

MARY ANN BORGESON: Mm-hmm. Sure. Mm-hmm.

KAUTH: Thank you.

von GILLERN: Thank you.

MARY ANN BORGESON: And I did send for the inheritance tax. I don't remember if it was-- it was at the end of the last session I sent you all a PowerPoint of what Douglas County does with their inheritance tax. So we actually do have it separated, and then we list out where

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that money has gone every year. So what-- how much goes to the community mental health center, how much goes to the health department, how much goes to veterans, et cetera, et cetera, et cetera. Those are all listed out in that PowerPoint.

KAUTH: I'll pick that up. Thank you.

von GILLERN: Thank you. Senator Murman.

MURMAN: Just, just a quick-- the list of unfunded and underfunded mandates, I think I've seen that before. But could you send it to the whole committee [INAUDIBLE]?

MARY ANN BORGESON: Sure. Absolutely.

MURMAN: Thank you.

von GILLERN: Commissioner Borgeson, thank you. Quick question. The-- what is the total budget for Douglas County?

MARY ANN BORGESON: About 500 and some.

von GILLERN: OK, so \$15-19 million is a couple percent, 2 to 3%?

MARY ANN BORGESON: Yeah.

von GILLERN: OK. And then in fourth paragraph of your testimony, you talk about the funds for commun-- used for community mental health center, general assistance department, health department, veterans services, this goes back to a question I asked earlier. Are these funds restricted or unrestricted?

MARY ANN BORGESON: They're unrestricted, but that's what--

von GILLERN: OK.

MARY ANN BORGESON: But we'll, we'll use the inheritance tax dollars first part of that budgeting process--

von GILLERN: OK.

MARY ANN BORGESON: --rather than property taxes.

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von GILLERN: But you could also say that you use the inheritance tax dollars to fund the jail, and fix bridges, and pay police, and every-- because if it goes into the general fund--

MARY ANN BORGESON: Yeah.

von GILLERN: --really, it pays for all of those things. Correct?

MARY ANN BORGESON: Whatever we decide where that should be.

von GILLERN: OK. But these are-- OK.

MARY ANN BORGESON: Yeah. Yeah.

von GILLERN: All right. Thank you.

MARY ANN BORGESON: Yep. It's not restricted.

von GILLERN: All right. Thank you. Seeing no other questions, thank you for being here today.

MARY ANN BORGESON: Thank you.

von GILLERN: Next up, we're going to invite Brandi Burkett. Is it Burkett or Burk-ett?

BRANDI BURKETT: Burkett.

von GILLERN: Burkett. Thank you. Good afternoon.

BRANDI BURKETT: Good afternoon. When do you want me to start?

von GILLERN: Right now.

BRANDI BURKETT: OK. My name is Brandi Burkett. I'm in Legislative District 4. B-r-a-n-d-i B-u-r-k-e-t-t. Hi, my name is Brand i Burkett. I am a fifth-generation Nebraskan who will inherit farmland from my mom in the future. The cost of the inheritance tax will be unaffordable to me. The future of farming is unknown, just like the weather. While we can't control the weather, we can control in helping to make sure the next generation to take over family farms can con-- can continue farming and keep their land in the family. Please keep in mind that there are approximately 45,000 family farms in Nebraska. When faced with, with an expensive price tag at the mall, we can just

say no to buying a product. However, when faced with buy-- having to pay a tax, we can't say no because people are forced to pay it. Individuals that inherit land could be faced with a difficult decision of not being able to afford the inheritance tax, and instead of going into debt, they will sell the land quickly. You may think no big deal if they sell the land. However, to me, I think about who are they selling the land to, a corporate or individual that has foreign ties, someone that will turn the land into a parking lot and not even use for growing more corn for ethanol? I will be blunt. I don't really care if the individual that inherits a house on Third Street in a small town sells the house, but I do care if farms start to die and the future of our food goes extinct. Therefore, I ask you to ask yourself, is the inheritance tax worth killing the future generation of farmers, or can you create a viable option in this neverending world of inflation and help the great people of Nebraska out? Maybe charge an extra \$5 on license plates so everyone has to pay every year, including people who may never inherit land? Or can you even consider at least waiving the inheritance for, for agricultural land so family farms can continue growing and raising your food?

von GILLERN: Thank you. Questions from the committee? Senator Murman.

MURMAN: Thank you for testifying. Would you say the same thing holds true with property taxes as what you just said about inheritance taxes, as to, to the sustainability of family farms?

BRANDI BURKETT: Correct. The rising, the rising cost in, in property taxes. Do I think it's option-able for-- to us to completely get rid of property taxes? Probably not. But I would definitely suggest that there needs to be help when it comes to that, in order to keep family farms going.

MURMAN: OK. Thank you very much.

von GILLERN: Thank you. And if I listened to your testimony accurately, if you inherit land but no cash to go with the land, you don't have any way to pay the inheritance tax on the land. You've got an illiquid asset. Correct?

BRANDI BURKETT: Correct. If not-- if you don't-- some, some-- I believe some people may, but some people may not.

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von GILLERN: OK. Very good. All right. Thank you for your testimony today.

BRANDI BURKETT: Thank you.

von GILLERN: Next up, we invite Alex DeGarmo. Good afternoon.

ALEX DeGARMO: Good afternoon, Vice Chairman von Gillern and members of the Revenue Committee. My name is Alex DeGarmo, A-l-e-x D-e-G-a-r-m-o. I'm the chairman of the Cass County Board of Commissioners. For the record, I'd like to know I am taking vacation time from the Legislature in order to testify today. I'd also like to thank Senator Clements for inviting me to testify. I do not oppose the reduction or elimination of the inheritance tax, as long as separate sustainable revenue stream is provided to make up for the loss of that revenue. Inheritance tax is the only significant stream of revenue besides property tax that we have as a county. An elimination without replacement would be detrimental to the essential operations of the county. In our current budget year, we brought in just over \$2 million of inheritance tax. Of that, we've budgeted \$225,000 for new cruisers for the sheriff's office, \$15,000 for necessary security upgrades for the treasurer's office, and \$36,000 for a truck for the Wheat Board. The remainder of our inheritance tax dollars are set aside for any capital improvements that may come up throughout the year or emergency repairs to any of our buildings. As the Cass County Commissioner, I believe I'm a responsible steward of our tax dollars. And if I wasn't, I would hear from my constituent that's sitting right behind me here. And in order to divest our budget from property taxes, we need separate streams of significant revenue. And currently, that's only inheritance tax. I would be supportive of any measure to reduce or remove inheritance tax as long as there's a consistent sustainable revenue stream to make up for those lost dollars. Thank you for your time. I would be happy to answer any questions.

von GILLERN: Thank you. Any questions from the committee members? What's left of us. Thank you. Thanks for being here. Seeing none, thank you. Next up, I invite Nicole Fox. Good afternoon.

NICOLE FOX: Good afternoon, Vice Chair von Gillern and member of the Revenue com-member--Committee. Nicole Fox, N-i-c-o-l-e F-o-x, Director of Government Relations for the Platte Institute. And we thank Senator Clements for his commitment to lessen the tax burdens imposed on

Nebraskans. For years, Platte has been a strong advocate for repeal of Nebraska's inheritance tax. We've testified at previous interim studies on the topic in addition to multiple legislative proposals. Last month, the Tax Foundation published its inaugural State Tax Climate Index. The index is comprised of 5 components, one of them being property and wealth taxes, for which Nebraska ranks 45th. As of January 2025, as Senator Clements mentioned, when Iowa's inheritance tax is officially phased out, Nebraska will be just 1 of 5 states to impose the inheritance tax. And as also been mentioned, Nebraska is unique in that it is collected at the county level as opposed to the state level. This, in addition to having the highest inheritance tax rate in the, in the country and, and that being the Class 3 relatives at 15%, this significantly impacts our ranking. So both the, the top rate and the fact that we have it on the books is impacting our tax ranking. From June 2023 to July 2024, over 9,700 beneficiaries pay-- paid \$84.2 million worth of inheritance taxes to Nebraska counties. And I'm going to digress here a little bit, because I know on the report there are 2 different numbers. There's the \$84.2 million, the \$93.7 million, Based on conversations I've had with the Department of Revenue, they kind of steered me towards more the \$84.2 million, which is why I mention that. And I know Senator Dungan was asking about the number of beneficiaries that this impacts. And like I said, 9,700. I've used the total number of folks and not just, you know, residents, non residents, just because I think it's important that, you know, we do have people that leave the state. Some of this money is being-- or not money, but, you know, property is being given to relatives that have moved away from Nebraska, and I think we need to, you know, do everything we can to get those people back here. So I think the fact that they maybe can inherit property and, and move back and take advantage of that property would be good to bring people to our state. Not only is the tax itself a burden, there are also other added costs to consider. There are costs associated with probate court for those hoping to eliminate imposing tax liability on their loved ones, tax avoidance strategies and estate planning also come with a price tag, and not everybody has the resources to do that. Nebraskans are already paying some of the highest property taxes in the country, and they're begging for tax relief. And just real quick, I'm going to digress a little bit again here. Platte was invited to some of the working group over the interim. I will say that we were only able to be at 2 of those meetings, and they were very early meetings. So I, I'm not famil-- I was not-- yeah. I, I'm not familiar with some of the

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discussions that were had later. But, you know, we were definitely at the table just to listen and to say, you know, just kind of be there to say we support the idea of, you know, trying to repeal this. We're thankful that NACO got a group of people together to try and talk about this and see if there is a solution. Additionally, you know, I will bring up that, you know, lots of things have been put on the table today. And I'm used to going before NACO and some of the county commissioners. So I've been taking notes and just wanted to get a few things on the record. And first of all, Senator Kauth, I appreciate some of your comments and questions because, you know, things to kind of keep in mind here is just this, this balance and this way that we can come to some sort of agreement. If, if we had it our way, we would just say, get rid of this thing, you know, repeal it, get it off the books and let's move forward. But we also know that there's a reality. We-- you know, there's a reality that there are some senators that are concerned about their counties being made whole and different things. But again, it brings back to that balance, because I think we have to be careful about, you know, kind of tax shifting, because again, the goal here is to try and maybe, you know, bring some relief to folks. You know, when we're talking about things like fees, Platte has always said-- I know when we're talking about, you know, things like occupational licensing or whatever, we, we talk about fees and that, you know, we want fees to be reasonable. We want fees that cover, you know, the cost of administering a program, not just, well, you know, the state charges more than we do so we think that that's a good reason to increase it. So we want to make sure, again, we're, we're looking at balance. I do think it's reasonable to take a look at unfunded mandates, and you know, what-- are there things on the books that are antiquated? Because, of course, if we can reduce costs, I think that's reasonable. So just that-- that would be my thing, is that Platte would like to see, you know, thoughtful balance, and also keeping in mind that Nebraskans are faced with increased costs every day. Nebraska businesses are also faced with increased costs and we have to make tough decisions. And sometimes, you know, we, we have to cut back. The other thing I'd ask of this committee is, is it moral and ethical to levy an additional tax on property where annual property taxes have always-- have already been levied and they'll, they'll be continued to be levied when an original owner dies and a transfer of property is triggered? Additionally, inheritance taxes paid on investments like annuities and IRAs. This means the county is levying taxes on items where income tax is traditionally paid. Tax

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mobility is higher than ever, and taxpayers can change states to avoid placing a tax burden on their loved ones. We are discouraging people from staying in Nebraska and investing in our communities. And, you know, kind of as I started, Platte Institute's very concerned about our tax competitive-- competitiveness. We want to draw people to Nebraska. We want people investing in Nebraska, creating jobs, hiring workers. Most importantly, the inheritance tax fails to meet the stability principle when it comes to sound tax policy. It fails to provide steady revenues for core government functions and therefore, does not fit in a modern tax code. And we published a paper on the inheritance tax in 2021. And in that report, we found that inheritance tax, you know, maybe provides about 3% of budgets. So I know that fluctuates greatly. Obviously, some counties collect much more than others. Some counties, there are years where they collect none. So as we look to 2025, I just want to emphasize that this, getting rid of the inheritance tax, whether it's a phase out, we-- you know, this is a huge priority for us. It does affect our tax competitiveness, and we hope that members of this committee returning in 2025 will also make it a priority. So with that, I'm happy to answer any questions.

von GILLERN: Thank you. Questions from the committee? Senator Murman.

MURMAN: Thank you for your testimony. Do, do you have any numbers as, as to how many people leave the state that are past ret-- may be past retirement age or-- I know there's a lot of reasons. Well, there's no reason to leave the state, but, but they may have excuses. It-- and if, if you do have any of those numbers-- of course, it'd be hard to determine, I'm sure, if they leave because of inheritance tax or other reasons.

NICOLE FOX: Yeah. I mean, I do know that we've used-- there is migration data that, that is out there. And we've used that in some of the publications we've put out on a variety of tax topics, so I could get you those numbers. But yes, Senator Murman, as you mentioned, you know, I can't say as to, you know, why-- or I couldn't say that, well, of these numbers, this is the number that leapt solely because of inheritance tax. But, you know, we do know that people are leaving because of it.

MURMAN: Yeah, just having the numbers of the people that leave the state--

NICOLE FOX: Sure.

MURMAN: --older people that leave the state-- of course, much older than me-- that leave the state, you know, would be useful. Thank you.

NICOLE FOX: Yep.

von GILLERN: Other questions? I just wanted-- a couple quick comments here.

NICOLE FOX: Yeah.

von GILLERN: Your comment about is it moral and ethical to levy this tax on property-- annual property taxes have already been levied. I also want to point out that what-- some items that are inherited-- well, most items that are inherited were purchased with after-income tax dollars. Sales tax was paid when they were purchased, property taxes were paid. If it's a vehicle, motor vehicle taxes were paid. And then if it's inherited, inheritance tax is going to be paid. So it's 4, 4 or 5 time-- levels of taxation on the same item. Correct?

NICOLE FOX: Yes, correct. And you make a very good point. And yeah.

von GILLERN: Then one last thing. And, and you mentioned it as-- and it reminded me that you were able to attend a couple of the working groups. I've, I've received credit and/or blame for being part of the group-- or you might have to look at it. I was unable to attend the meetings in the group, but appreciate the work that was done. But I don't want to get credit for work done by others, so I just want to make sure that that was clear. And so, thank you. Thank you for your testimony today.

DUNGAN: Credibility.

von GILLERN: Well, credit or [INAUDIBLE]. Yeah, depending on where you're sitting. Last up, Doug Kagan. You had all this time to get ready.

DOUG KAGAN: Good afternoon. Doug Kagan, D-o-u-g K-a-g-a-n, 416 South 130th Street, Omaha, representing Nebraska Taxpayers for Freedom. A major objection to ending the state inheritance tax stems from those concerned that the resulting fiscal deficit will result in a property tax increase. We suggest--k excuse me-- we suggest that county

officials instead examine alternative means to replace the, the lost revenue. One source, one source is requiring the state to pay for or to prohibit not only the increasing unfunded and unfunded-- underfunded mandates placed on counties, but also the higher levels of service, more expensive services required later on. Examples are the court and probation costs. Secondly, counties should implement zero-based budgeting in all their departments, forcing them to justify every expense for a future fiscal year. Private companies and government agencies find it an effective tool to identify and eliminate unnecessary costs and control spending. So you would calculate, calculate cost versus benefit justification for each expenditure required, every item scrutinized to determine if a program, service, or activity merits reduction or removal. Managers must account for all elements of a budget and identify cost savings areas. Third, counties could conduct work audits. Desk audits require justification for every job position to verify if work responsibilities performed are vitally necessary or overlap other work. Performance audits provide objective analyses and conclusions to assist management to improve workflow and reduce costs. These actions can improve and streamline workplace operations. Finally, we suggest that county governments eliminate all nonbasic operations from their budgets. Examples from Douglas County include eliminating the law library and extension service. And right after I wrote this, something else came to mind, and that is just very, very recently, we found out that Douglas County is losing out on, on a, a lot of prospective revenue. Because right now, across the river, Pottawatomie County rakes in millions of dollars from the immigration service by housing criminal illegal aliens. The Douglas County jail currently does not do that. So the immigration service, which does not care about state boundaries, they take all the criminal illegal aliens from eastern Nebraska, including Douglas County, and they put them in the Pottawatomie County jail, and Pottawatomie County makes millions of dollars from that. Douglas County could make a lot of that money if we kept the illegal aliens detained in Douglas County. So therefore, we urge county officials to concentrate on implementing these solutions to expected revenue loss stemming from inheritance tax elimination. Thank you.

von GILLERN: Thank you for your testimony. Questions from the committee members? Seeing none, thank you for being here today.

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DOUG KAGAN: Thank you.

von GILLERN: And that is our last testifier. Senator Clements, would you like to close?

CLEMENTS: Thank you, Mr. Chairman. I have a few closing remarks. The-- and I'm definitely open to suggestions for other revenue sources for counties. We've looked at a lot of them, but there are other potentials. Motor vehicle taxes and motor vehicle fees, we've looked a lot at those. It's very complex. One thing we found is that the schools get \$200 million a year of motor vehicle taxes-- revenues from vehicle licenses, which, they're not having to build roads but the counties are. Might make some sense to give the counties some more of the motor vehicle fees. But, but the-- everybody knows the motor vehicle licensing is already very high, and so we didn't consider increasing anything with motor vehicle licensing. But we're continuing to research that, and my staff has been working on that along with the Department of Motor Vehicles. We found that there are-- right now, the motor vehicle tax quits when your car is over 14 years old. And there are 1 million cars on the road in Nebraska, over 14 years old, not paying motor vehicle tax. One thought was maybe have them pay \$25 forever to be able to use the road. That would be \$25 million. But I think before we did that, we would want to try-- we were thinking try to reduce the overall cost of licensing because we are out of line. Anyway, we're still-- we'll still be working on that as a, as a-- another possibility. The civil fees that were mentioned. There are some potential revenues, but some may be eliminated and, and actually, overall, they're probably a small amount as far as affecting this program. You asked about the amount of inherited-- how much average is inherited. You have a inheritance tax report from the, the state, and I did some calculations from the state-- the amounts paid per class. Children, Class 1, there's 12,267 of beneficiaries. The average amount they inherited was \$526,000. And at 1% after the \$100,000 exemption, they paid \$4,260 of tax each. Then look at nieces and nephews, Class 2. There were 1,258 of those. Their average inherited amount was \$195,000, but they paid \$17,000 in tax each, where the people inheriting \$500,000 paid \$4,000, inheriting \$295,000 paid \$17,000. Then the nonrelatives, 435 of those, their average received was \$185,000. And at the 15% rate, they paid \$24,000 in tax on \$185,000 of, of inheritance, whereas the children with \$500,000 pay only \$4,000. So that's-- then that's why I'm targeting the Class 2 and 3 first. So there were 13,960 total beneficiaries on that report for a

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year. And regarding a, a few people paying for-- switching that from a few people paying to everybody paying, I think is the right thing to do because these people are using all those roads as everybody else that's using them. That's why I'd like to see this eliminated. And, and with-- as far as people living in the state, Senator Murman, I don't have figures on how many people would have left, especially because of inheritance tax. But I have had e-mails from people who said, I'm, I'm out of here, 50-year resident of Nebraska and now, I'm in Florida. One guy said, I've got a house in South Dakota and I've got a house in Florida. And I'm not dying in Nebraska because he has no children. And he said the county is not going to get 11% of my life savings. So he's gone. And also, I've heard from estate planners that advise people, don't get caught dead in Nebraska. And-- but I don't have numbers for that. Then one, one final thing. On this trend line graph, you look at 2000 and-- up to 2005, it was really flat. And then it takes off. Then in 2001, the federal estate tax was changed, where the Nebraska tax paid wasn't a credit. Then there was-- the inheritance tax formula was reworked. They increased some of the exemptions. But then to make up for that loss of revenue, they increased the rates. And I don't know what-- I don't remember what the rates were. I think the-- I think Class 2 was 9%, and it went up to 13%. Then a bill that I had a couple of years ago brought it down to 11%. But I believe that's a factor of why that took off. And then, just growth of people's asset-- estate, especially land values, as also, because of quite an increase in the inheritance taxes paid and the, the dollar amounts that people have to come up with to try to inherit some, especially farmland-- in where we try to keep land in the family. And I welcome any other questions.

von GILLERN: Questions from the committee members? Seeing none, thank you, Senator Clements. Appreciate it.

CLEMENTS: Thank you.

von GILLERN: That will close our hearing on LR314 and we will open on LR435. Welcome, Senator Raybould. Good afternoon.

RAYBOULD: Good afternoon, Vice Chair Senator von Gillern and members of the Revenue Committee. My name is Jane Raybould, J-a-n-e R-a-y-b-o-u-l-d, and I represent Legislative District 28. I introduced LR435 to assess the loss of funding to Nebraska counties as a result of an elimination of the Nebraska inheritance tax and to identify potential state funding sources to replace lost revenue to Nebraska

counties as a result of an elimination of the Nebraska inheritance tax. And I'm going to skip a lot of my written testimony because I think you've heard a lot of this before. It's kind of ironic. I was here before a different Revenue Committee back in 2014 when I was the Lancaster County Commissioner. And back then, we were-- I was testifying in opposition to LB960, and I was testifying in opposition to LB812, which was yet another attempt to do an elimination of the inheritance tax. I have to thank Senator Clements. He has done a phenomenal job. I love the fact that he has dived deep down in the weeds, but it's thanks to the data and the collection of important information from NACO, certainly by Jon Cannon, by Candace Meredith, and all the outreach that they had with the 93 counties across the state of Nebraska, asking them the specific question: How would this impact you? What are the elements that would need to be eliminated and what other sources of revenue would you suggest that we look at that would help supplant the loss of inheritance tax? And I think we've heard a lot of interesting things. But I'm going to go back to my 2014 testimony because I think it just brings the same issues back, the same issues up again and again. In Lancaster County, the inheritance tax plays a key role in balancing our budget and keeping property taxes as low as possible. All inheritance tax revenue is deposited in the county's general fund to help cover operating expenses, thereby providing direct property tax relief. We've heard a lot about this, certainly this past special session in particular. While the Legislature has created numerous mandated responsibilities for counties, our revenue tools are very limited. It makes no sense to reduce one of the few revenue sources available to counties. If the inheritance tax is decreased, there is no guarantee the additional money received by the beneficiaries will stay in our community. Or for that matter, the state of Nebraska. On the other hand, every cent of inheritance tax collected will be invested in our community. I think Senator Clements gave that one example of one of the individuals would be inheriting \$195,000. The inheritance tax for the state of Nebraska would cost that individual \$17,000. We cannot lose sight of the fact any Nebraskan who inherits the balance of \$175,000 would be beyond thrilled to pay that inheritance tax to the state of Nebraska. That \$17,000, you've heard it from other testifiers of what it goes towards in those counties. It takes care of bridges, it takes care of roads, it takes care of culverts. It takes care of radios for the sheriff's department. It takes care of upgrades to their 911 call centers. It takes care of their ambulances and fire trucks. It takes care of the

community center roof that needs to be replaced. It takes care of an elevator that goes out in Seward County that needs funding to replace. And I've heard before that, OK, that some counties have reserves. Some counties intentionally keep reserves going and for one very fundamental reason: they need to be able to make that match so that they can get the funding from the state of Nebraska to fix that bridge. Because we all know fixing bridges is essential for a rural community to transport their grain and products to the grain elevator. So these are fundamental things, you've heard a lot about it, and I don't want to keep going back and forth on it but it's-- I really applaud the efforts of NACO and Senator Clements to really find those elements that we can supplant this loss of revenue. And certainly fees are one of them. I think-- I don't know-- I think Candace gave the example of a, a deputy-- a county sheriff's office, they get \$2 to serve a distressed warrant. Now, I know for a fact that other counties have already raised those fees, despite the fact that it's-- they're required to keep it at \$2. But they can't make ends meet. That does not even cover the cost of gas to get out to some trailer court outside the city or community to cover the cost of their time and materials. And I think that's what they're focusing on to look at can those fees be raised commensurate with the administrative costs involved? I can speak of the city of Lincoln, water. You know, we constantly look at the water rates in the city of Lincoln, but we keep up with that increase in the cost and administrative charges as well as the infrastructure improvements by looking at it thoughtfully and carefully and fiscally responsibly increasing those rates. They are announced. And to this fact-- and to this day, the city of Lincoln has some of the most affordable water rates in the entire city or in, in the entire state of Nebraska. Because you do these thoughtful approaches. And by the way, it hasn't impacted the, the city of Lincoln in their bonding authority and ability to get funding. We have a triple, triple A bond rating which allows us to get the, the lowest interest rates when it comes to financing projects and bonds. The other thing I wanted to mention, you had asked questions about mandated responsibilities, and I could spend a little bit of time on that but, you know, we talked about how many people does this really impact? And I can just go back to 2014 in my testimony. It says: make no mistake, eliminating the inheritance tax will result in a tax shift to the average property taxpayer. You've heard that from others. Of the 761 probate actions processed by the Lancaster County Court in 2011, that's when I started my gig as a county commissioner, only 563

cases resulted in an inheritance tax transaction in the county. In comparison, replacing these funds with the property tax increase will come right out of the pocket of every hardworking real property owner in the county. So that goes back to that fundamental philosophy. If you have a marriage license-- I don't have-- you know, let's say I'm a divorcee, I don't have a marriage license, but you're paying for that, as you should. But you should pay the appropriate fee and charge. In a county, they're hamstrung, they cannot increase those fees without applying to the state of Nebraska to give them a grace and allow them to do that. I think what they're saying, it should be fair and free and not onerous to our taxpayers that have to pay this. I know in my testimony I also said that over the last 3 budget years, Lancaster County averaged an inheritance tax collection of almost \$8 million. And they can budget for it, many counties do budget based on projections and estimations. So the loss of this revenue of \$8 million to Lancaster County back in 2014 would potentially require a reduction of 150 jobs, representing nearly 19% of our entire workforce. Our constituents in our cities and our counties rely on government to deliver on the services that they have come to expect and appreciate. If we continue to go down this pathway of restricting our ability to do our mandated, statutorily required jobs without coming up with a really thoughtful revenue replacement, then we're not doing our service to our county, our city, our community, or our state. The other thing I wanted to talk about that I also found very interesting, and Jon Cannon referenced this, it was a Nebraska survey, key findings done in February of 2023. I'm just going to hit the top, top items. I thought this was interesting. It says: over, over 3 in 5 voters have a positive view of their county government. Just over half feel the same way about the State Legislature. So that should give one pause, thinking that they feel that their county is appropriately and fiscally responsibly spending their tax dollars. A majority of Nebraskans say that every type of tax tested is too much. They're most adamant about property taxes being too high. And we have heard that. Nebraska voters want the state legislator to focus on eliminating or drastically reducing property taxes or state income taxes. Just 12% point to inheritance tax. 53% say property tax is, is a real issue. Just 12%. Most Republicans want the State Legislature to focus on cutting property taxes, followed by state income and then sales. Inheritance tax ranks last for them or is not even brought up. Majorities across party lines find the inheritance tax to be acceptable. I believe Senator Clements said 70% find it unacceptable.

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That is not the case for some of the statistics that are shown on this page of a survey that was done in 2023. I think, Senator von Gillern, you talked about it, younger men are the most likely to find the inheritance tax acceptable, while older men are the least likely. The inheritance tax is generally seen as acceptable in all major regions of the state. 3 in 4 voters support the state dedicating other tax revenues to maintain county services if the inheritance tax is eliminated. I think what else I wanted to dive into briefly, if I could, is, you know, if we're dead set on eliminating the inheritance tax, I think it must be coupled, and you've heard this from other people, to restrict unfunded or under funded mandates from the state. You know, that's, that's not a new issue. I know that in 2014, Senator Sue Crawford introduced legislation about unfunded mandates in the counties. I can tell you I was fortunate to attend the National Association of County Officials from all across the United States. Several other states like Oregon and Washington have already implemented this. So it's a guardrail for the legislatures to be mindful of anything that you pass well-intentioned that has great beneficial value to the people that we serve in our state also has a fiscal obligation. And I think we're fortunate when we go up for fiscal notes, the counties are very responsive and can tell you exactly how that's going to impact them. That information that they provide is essential, I have found, to make really good policy decisions. In the report that was done in 2014, it detailed 16 actionable steps in the Legislature could take to address some of the most pressing unfunded mandates to the counties. And you've heard it before, some unfunded mandates are office space all up and down with the courts, with DHHS, you name it. There's requirements for the counties to provide office space built out, livable, workable office space to all these entities. We've heard correctional facilities, indigent defense, courtroom security, and housing inmates convicted under state laws. NACO updated that report in 2019 when Senator Wayne introduced this similar study. And, of course, Senator Blood has countlessly, 3 times at least, introduced for unfunded mandates. And as we have established, it's not just for counties, it's-- impacts all political subdivisions. You know, we have moved forward on some of the issues in the 2014 report, but many remain and more are added every year. Some, like marriage license fees, were adjusted once in the last 50 years, but need to be revisited to reflect increased administrative costs. And, you know, that's not to say all changes are bad. Many serve our public and are beneficial to Nebraskans. This study is to

remind us that we as a body need to be aware of the costs of the requirements we place on local governments and how they will be funded. OK. So I'm just going to give you some examples. I know motor vehicle building. Lancaster County provides 1,651 square feet to the state. And this includes utilities and custodial services that they're required to, to pay. The county treasurer, the county treasurer collects sales taxes and remits to the state that the motor vehicle division collected was \$29,238,776 in fiscal year '12, and collection fees kept by the state were \$1,800. So we're talking \$29,238,000 that they were obligated to collect for the, the state and they were reimbursed \$1,800. And it goes on, Election Commissioner-- think of all the, the petitions, ballot initiatives that we had on the ballots just this November, the state pays zero of those costs, zero of those costs. They pay zero of listing all of the, the state senators that ran for reelection and new voters that run. I mean, I have the ones from Lancaster County. I have the ones from Sarpy County. I, I know that we heard that Douglas County has theirs as well. These are real. They're not made up and they're not made intended to detract from the good things the counties do. I also want to just-- spend just a moment talking about my experiences as a county commissioner. As a business owner or business person, I can do my own cost benefit analysis. But when I came in back in 2011, I was determined to create these efficiencies in government that we love to talk about. I was determined to do it. I went down to purchasing. I looked at their stuff. I was totally humbled by the, the amount of software that they have that can really number crunch like crazy. Look at the bids and try to find savings. I was humbled by the individuals in each one of the departments and the work that they were able to do to be very mindful of their budget and to deliver on their commitment to help us keep our property tax rate low and affordable and reasonable for, for everyone. I heard a comment from a, a gentleman about-- like Pottawattamie County, they've got it figured out. You know, they'll house all these undocumented immigrants. That is just not true. The only way you can house undocumented immigrants, and if you want a hold on them, you have to reach out to the federal government. The federal government is the one who reimburses for each and every one of those jail holds. And guess what, how much do they pay Lancaster County? Zero. They will not pay us for detaining these individuals. And that is the reason why oftentimes these people get cited, they get held, but they are not detained because they're undocumented, because the federal government does not pay for this. I have seen the good that we

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have done in Lancaster County with the inheritance tax. We've heard comments and discussions about people like, you know, we're going to lose our family farm. It's very similar to the example of the-- that Senator Clements gave of about inheriting \$195,000, you pay that inheritance tax. Many farmers, I would say most farmers are very good at estate planning. I'm fortunate to be part of a, a grocery family as well. We have had state-- estate planning. I assure you that the inheritance tax of the state of Nebraska is a pittance. It is so irrelevant to the fiscal responsibility that is extracted from you, from the federal government and your liability there. We are fortunate to have good estate planning. A lot of farmers are the same way. Unfortunately, what we see in our farming communities, if you have multiple siblings, they want to sell that land because that is their inheritance. They want that land sold and that's some of the things that we're facing today. So I want to say thank you very much for the opportunity, and I really applaud the creativity of Senator Clements. He's on to something. He really is. If we really are determined to do away with inheritance tax like they have been trying year after year after year, we realize it's not as easy as we thought it would be. And we have to figure out ways to make our counties whole in this. Not because we feel obligated to do so is because even with the additional lids we put on the counties, we're making it more and more challenging for them to do the statutorily mandated obligations that they must fulfill to the state of Nebraska. So I, I pledge to you today that I want to continue to work with Senator Clements and NACO on coming up with reasonable and fair ways that we can work together if we want to eliminate the inheritance tax, but it has to be coupled with legislation, that I do plan to introduce this coming session, on unfunded mandates, on unfunded mandates. They are essential guardrails for the state of Nebraska to live up to their job of not putting undue burdens on the counties and the cities. So thank you for your time. I'll try to answer some of your questions, but I'm hoping the really officials like Candace Meredith is going to fill in all the details in, in my gaps.

von GILLERN: Thank you. Questions from the committee members? You must have been very thorough. Thank you.

RAYBOULD: You're welcome.

von GILLERN: Appreciate your testimony.

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RAYBOULD: Got lots of handouts.

von GILLERN: You invited Jon Cannon.

RAYBOULD: Yeah.

JON CANNON: Good afternoon,--

von GILLERN: Good afternoon.

JON CANNON: --Vice Chair von Gillern, distinguished members of the Revenue Committee. My name is Jon Cannon, J-o-n C-a-n-n-o-n. I'm the executive director of NACO, here to testify on LR435. First, I certainly appreciate Senator Raybould's comments. I don't think I could present that any more ably than, than she did. And also to avoid being unnecessarily cumulative, we're getting a little bit later on a Friday afternoon before the Wisconsin game, I'll incorporate much of my prior testimony by reference.

von GILLERN: Thank you for being here.

JON CANNON: You've been a great crowd. Tip your waitress. So-- and I, I think that Senator Raybould got into a very good discussion on unfunded mandates. That's been a pervasive issue for many, many years, you know, and, and we are creatures of the state. Senator Bostar had mentioned that. And the state can pass costs on to us for sure. No-- there's no question about that. And they can pass on duties and responsibilities that are for the common good. And, and that is what we're here for. I mean, we're, we're not trying to shirk our duty or shy away from any of those sorts of things, but a cost that's passed down to the counties is a cost that is ultimately going to be borne by the property taxpayer. And at the end of the day, one of the things that we continue to talk about is, you know, what can we do to reduce the property tax burden? And so when we talk about the inheritance tax being the only other major source of revenue that counties receive, it's going to be bound up in that conversation about property taxes. You know, just as an example, Sarpy County, they've averaged about \$3.2 million a year in inheritance tax receipts over the last several years. And they've recently done a study where they estimate about \$17 million in unfunded mandates is, is something that they're responsible for. I've, I've had conversations with a number of people and I said if the state wants to take care of unfunded mandates, I'll, I'll give, I'll give away the inheritance tax. And for whatever reason, I'm not

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getting any takers. How peculiar. But, again, going back to my prior testimony, I think what is probably the most, the most beneficial thing that we could do is, is really engage in that top to bottom conversation about what are those things that are so peculiarly local? And I'm not going to say that every mandate that comes to the counties is an unfunded mandate that we should just, just avoid. What is the proper division of labor? What are those things that are so peculiarly local that the county, in fact, should be taking care of as part of its duty as a political subdivision of the state? What are the sorts of things that, that truly are statewide purposes? And so, again, I'll go back to the riparian vegetation management example that I had earlier. Those are the sorts of things where, you know, we got out of a \$72 million lawsuit. We ended up paying the state of Kansas \$5 million and the investment by the state of Nebraska to, to save itself 67 million bucks was way less than that. And so I, I think having that, that conversation as to what are the sorts of things that we do at the county level that are state responsibilities versus those that are, that are truly local, I think that's probably the best direction that we can take when we get to the subject of unfunded mandates. And, again, I will, I will just say that I reincorporate my, my prior testimony by reference. As far as the inheritance tax is concerned, I think that there's been a lot of thoughtful conversation, a lot of really diligent work that has gone into examining the sources of revenue through fees and other taxes that, that counties have available to them in, in figuring out the best way forward as far as the citizens of Nebraska getting the services they expect and paying the proper amount on a per capita basis. And so with that, I'm happy to take any questions that you may have.

von GILLERN: Thank you, Mr. Cannon. Any questions from the committee members? Senator Dungan.

DUNGAN: Thank you, Vice Chair von Gillern.

von GILLERN: Senator Dungan.

DUNGAN: I'll be, I'll be quick. Thank you again, Mr. Cannon, for being here. In the conversation that we're having around unfunded mandates and local versus state level funding, I guess I'm curious the level of conversation you've had with other stakeholders or internally in NACO with regard to the cost and expense at the county level for Corrections. You look at the Lancaster County budget and I think the

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proposed budget that was just approved recently has Corrections at about \$37 million. I think it's the second highest line item for the county. So when we start talking about things that are inextricably intertwined, we're talking about county costs, I think we have to have a conversation about Corrections. Has that been something that's been discussed with regards to ways counties can reduce the amount they're spending on Corrections, whether that's getting more people on pretrial release services or shorter sentences or any kind of, like, conversations surrounding that that you've had with regards to inheritance tax?

JON CANNON: Yeah, we've, we've broached that subject. It's, it's probably not as complete as, as I would like to have for purposes of this conversation. So I'll hold my-- keep my powder dry for just a little bit. But you're absolutely correct, sir, that the-- that Corrections is a, is a huge line item for counties statewide. And, and just as an example of, of some of the, I don't want to say unintended consequences, but, but some of the things that, that are, are, you know, very peculiar issues for, for Corrections at the county level is the cost of transport. As, as you're probably aware, they're-- not every county has a jail. So not every county has Corrections. Those counties will contract with another county, either in a local agreement of some sort where they're going to pay to place somebody there and hold a bed. But once that happens, then all of a sudden when that person has their, their arraignment or their court date or any of the other things that they have to do, there's a cost to transport. And not-- and, and the actual cost of gas going down the road to go, you know, to take that, that prisoner there, but also there's, there's the cost of-- I've got a sheriff's deputy, he's going to be out of the office one way and then the other way. And, and, oh, by the way, if I'm in a small county and we only have, you know, the sheriff and, and 2 deputies, that's going to be a huge burden on, on the county from a manning perspective as well. And so I, I, I, I would, I would like to go further. The cost is huge. And I would say that statewide it's probably something that is, is a significant cost for the counties. I'll also mention that when there's a prosecution, you don't see the, the caption of the case read Lancaster County v. Smith. It says State v. Smith. And so there's definitely a state purpose that's being, you know, that's being applied here. But the question is, is how peculiarly local is that? I mean, that-- we're not prosecuting people from-- in Lancaster County, you're not prosecuting people from, from

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Boone County, for instance. You're prosecuting people from the population. And so I, I, I, I think there's probably a, a reasonable balance as far as what the state should be responsible for, but also what the county should be responsible for housing the prisoners from its, its community.

DUNGAN: Oh, and I appreciate that. I just think that we as a committee moving forward into the next year and we as a Legislature need to make sure that we're focusing on that. I know oftentimes we sort of bifurcate the issues when they're pertaining to criminal justice and finance, but they're obviously very, very related when we're talking about what we can save money on. And so I, I would appreciate to continue having that conversation on the county level as it pertains to the effect on property tax and replacement revenue when we're spending so much money on essentially extended incarceration. So happy to have that conversation as we move forward.

JON CANNON: Thank you, sir. Appreciate it.

DUNGAN: Thank you.

von GILLERN: Thank you, Senator Dungan. Any other questions from the committee? Seeing none, thank you, Mr. Cannon, for your testimony.

JON CANNON: Thank you very much.

von GILLERN: And is Ms. Meredith testifying? Already covered? All good? OK.

JON CANNON: And she got volunteered. Not by me, I kind of want to see what happens.

von GILLERN: All right. Senator Raybould, would you like to close at all or--

RAYBOULD: Sure.

JON CANNON: I, I think that Mary Ann Borgeson [INAUDIBLE].

von GILLERN: Oh, I'm sorry. No, I'm, I'm sorry. I got my list wrong here. Thank, thank you. Invite up Commissioner Borgeson.

MARY ANN BORGESON: Thank you.

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von GILLERN: My apologies.

MARY ANN BORGESON: No, that's fine. And I, I won't take long because I'll just basically say what I had said earlier in terms of the number of unfunded mandates. Douglas County, there's about 30 of them. And just to give you a couple examples that also have been given by senator, is the office space that we have to pay for the court space that we have to pay for, that we have no authority or say over any of that. But some of the recent, most recent ones was we looked at what our costs were to house DHHS juveniles and probation juveniles, and our cost was \$458. That was the per diem cost that we said we would need in our new contracts. And the state refused to pay that. The only amount that they agreed to was \$334. So the rest of that is picked up by the counties. And so, again, these, these all begin to add up. And the huge one is the mental health. When state went through behavioral health reform and closed down the regional centers, there's good and bad to that. Obviously, we're in support of people being able to be served in their communities by their loved ones, by their friends and families. But at the same time, we did not have the services, the, the resources to ratchet up those services within our communities. And we warned the state that this would happen and it did. And that was, they go to jail. So our jails are filling up with those with mental illness. We hit, not a good stat, we hit 51% of our adult correction folks have a mental illness, and those range from serious, persistent mental illness to just having some depression, which is still an issue. But 51% of the individuals and they're being housed in our jails. Not right, but we have to. We put off for a very long time. You talk about wanting to be responsible. We did not want to be a mental health facility or provider, but we had them in our jails. So you have to do something. And they were with us. And so we started to provide mental health services within our jail for these individuals to be able to at least stabilize them or get them on a road where we would be able, when they got released, to be back out into the community with some community providers that could continue their recovery services. So that's a huge one. And, again, we're also seeing it, it was in the adult, but we're seeing it a lot in our juveniles as well. So mental health is a big one that we actually do provide. And I think we can say subsidize the state services for those individuals with mental health services. But I'll get you the list of those 30 that we have. Again, it goes from the just office space all the way to actual

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contractual arrangements that we have with the state for various services.

von GILLERN: OK. Thank you. And before I forget, would you spell your name for the record?

MARY ANN BORGESON: Oh, yeah, sorry. M-a-r-y A-n-n B-o-r-g-e-s-o-n.

von GILLERN: And any questions from the committee members? Seeing none, thank you again.

MARY ANN BORGESON: OK.

von GILLERN: My apologies for skipping over that.

MARY ANN BORGESON: No. Thank you.

von GILLERN: Anybody else? OK. Senator Raybould.

RAYBOULD: Thank you all very much for your dedication to being here on a Friday afternoon. You know, I just wanted to follow up on some of the other things. When I started as Lancaster County Commissioner, the first thing the State of Nebraska did was do away with the state assistance to counties and to cities. I remember right away in Lancaster County that was a \$1.4 million deficit that we had to figure out how to, to bridge because we're required, as we all are, to make sure that our budgets are balanced. For the city of Lincoln, it was \$1.6 million doing away to the state aid to cities and counties. The other thing that I know that Mary Ann had addressed as well is funding for jail reimbursements. The State of Nebraska, when I came on board back in 2011, said, nope, we're just not going to reimburse you for the amount that we, we owe you. Back then it was \$8 million, \$8 million that the State of Nebraska owes us. And, unfortunately, the tab keeps rolling and rolling and rolling when it comes to individuals that have been sentenced by the courts to go to the Regional Center to be restored to their competency if they have a mental health issue and the Regional Center is obligated to take care of them. But, unfortunately, there's not enough beds in the Regional Center so these individuals stay housed in the Lancaster County Jail. The state has not been reimbursing the counties for doing just that, taking care of their responsibility that the state is falling short of. And so, I mean, there's more and more examples of these that we could share, but not on a Friday afternoon. But I do want to read just one comment from

someone I admire tremendously. His name is Ray Stevens. He is a former Lancaster County Commissioner. And I actually ran against him in order to win my seat on the Lancaster County Board. Ray and I are now friends. We ride our bikes together. But this is what Ray said when we had the debate earlier this legislative session. He says: Dear Senators, I appreciate watching the debate in the-- on the inheritance tax. Some arguments I agree with, some I don't. We all have our own views of these taxes. What I strenuously disagree with is the lack of a clear, total, and permanent reimbursement plan for the counties. In the case of Lancaster County, the revenue alternative is property taxes, which I understand you're working to reduce. The Legislature cannot congratulate themselves on eliminating a tax while at the same time forcing a lower ranking political subdivision to raise their revenue stream. That is not good public policy. I hear of jail reimbursement. When this existed 20 years ago, the Legislature met their revenue shortfall through funding out, which over several years means a \$17 million gap in state revenue coming directly to Lancaster County taxpayers. A total and permanent revenue solution to county governments must be a part of the discussion of inheritance taxes. Are you-- are-- ignoring the laws of unintended consequences? So I wanted to give a shout out to Ray Stevens and for his, his words of wisdom. So thank you all very much for your patience.

von GILLERN: Very good. Any questions? Seeing none, thank you, Senator Raybould.

RAYBOULD: All right. Thank you all and have a happy Thanksgiving.

von GILLERN: Thank you. You too. We'll close our testimony on LR435 and close out our Revenue hearing this afternoon. Thank you, everybody. Have a great weekend. Go Big Red.