

Transcript Prepared by Clerk of the Legislature Transcribers Office

Revenue Committee January 31, 2025

Rough Draft

von GILLERN: Good afternoon. Welcome to the Revenue Committee. I'm Senator Brad von Gillern from Elkhorn, representing the 4th Legislative District. And I serve as the chair of the committee. The committee will take up bills in the order posted. The public-- this public hearing is your opportunity to be a part of the legislative process and to express your position on the proposed legislation before us. If you're planning to testify today, please fill out one of the green testifier sheets that are on the table at the back of the room. Be sure to print clearly and fill it out completely. When it's your turn to come forward to testify, give the testifier sheet to the page or to the committee clerk. If you do not wish to testify but would like to indicate your position on a bill, there are also yellow sign-in sheets back on the table for each bill. These sheets will be included as an exhibit in the official hearing record. When you come up to testify, please speak clearly into the microphone. Tell us your name and spell your first and last name to ensure we get an accurate record. We will begin each bill hearing today with the introducer's opening statement, followed by proponents of the bill, then opponents, and finally by anyone speaking in the neutral capacity. We'll finish with a closing statement by the introducer if they wish to give one. We'll be using a five-minute light system for all testifiers. When you begin your testimony, the light on the table will be green. When the yellow light comes on, you have one minute remaining. And when the red-- and the red light indicates you need to wrap up your final thoughts and stop. Questions from the committee may follow. Also, committee members may come and go during the hearing. This has nothing to do with the importance of the bills being heard. It's just a part of the process, as senators may have bills to introduce in other committees. A few final items to facilitate today's hearing. If you have handouts or copies of your testimony, please bring up at least 12 copies and give them to the page. Please silence or turn off your cell phones. Verbal outbursts or applause are not permitted in the hearing room. Such behavior may be cause for you to be asked to leave the hearing. Finally, committee procedures for all committees state that written position statements on a bill are to be included in the record-- to be included in the record must be submitted by 8 a.m. the day of the hearing. The only acceptable method of submission is via the Legislature's website at nebraskalegislature.gov. Written position letters will be included in the official hearing record, but only those testifying in person before the committee will be included in the committee statement. I'll

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now have the committee members with us today introduce themselves, starting on my left.

SORRENTINO: Tony Sorrentino, Legislative District 39: Elkhorn and Waterloo.

KAUTH: Kathleen Kauth, Legislative District 31: in the Millard area.

BOSTAR: Eliot Bostar, District 29.

JACOBSON: I'm Senator Mike Jacobson. Represent District 42: Lincoln County, McPherson, Hooker, Thomas, Logan, and 3/4 of Perkins County.

IBACH: Senator Teresa Ibach, District 44, which is eight counties, including part of Perkins County in southwest Nebraska.

von GILLERN: Thank you. Also assisting the committee today: to my right is our legal counsel, Sovida Tran; and to the far left is committee clerk Linda Schmidt. Our pages for the committee today, please stand and introduce yourselves.

LAUREN NITTLER: Hi. I'm Lauren. I'm from Aurora, Colorado. I'm in my second year at UNL, and I'm studying [INAUDIBLE].

JESSICA VIHSTADT: Hi. My name is Jessica. I'm a sophomore at the University of Nebraska-Lincoln. And I'm from Omaha, Nebraska. And I'm studying political science [INAUDIBLE].

von GILLERN: Thank you for your help today. With that, we'll begin today's hearings with LB117. Senator Holdcroft, welcome.

HOLDCROFT: Thank you. Good afternoon, Chairman von Gillern and members of the Revenue Committee. For the record, my name is Senator Rick Holdcroft, spelled R-i-c-k H-o-l-d-c-r-o-f-t. And I represent Legislative District 36, which includes west and south Sarpy County. I am here today to discuss LB117 and AM100. This bill reintroduces the perennial assertion in the Legislature that the citizens of Nebraska should not be assessed a state sales tax on their utilities. In our society today, there is a blurred line between what is a necessity and what is a luxury. Are cell phones, satellite televisions, or a washer and dryer necessities or luxuries? If this, if this would be formally debated, you would probably have strong opinions on both sides. But if you were to-- if you were to ask the average subscriber to residential utilities if they could live without their electricity, natural gas, propane, or sewer services, I would daresay you would hear a

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resounding no across the board. I would maintain that-- then that utilities are a necessity and not a lux-- luxury. Every state, including Nebraska, has recognized that there are certain commodities that individuals must purchase to survive. Accordingly, many states offer some sort of product-specific exemption for items such as food, prescription medicines, and, in the case of LB117, utilities for residential use. LB117 and AM100 exempt from Nebraska sales tax the sale and purchase of utilities, including electricity, natural gas, propane, and sewer for residential use at one's primary residence or at a commercial property that is primarily made up of residential units. Nebraska currently allows exemptions on fuel used in manufacturing and other industries. You might ask yourself, why does a business get a utility exemption in Nebraska but a family does not? And I have some reasons why LB117 is such an important bill, but I do have a special guest coming up and I don't want to steal any of her thunder. This bill has been introduced by both Senator Justin Wayne and Senator Lou Ann Linehan. And, and so I'm proud to bring it again. Let's see. Sales tax exemptions on utilities ensure that all residential consumers, regardless of income, can afford basic services like natural gas, propane, sewer, and electricity without the added burden of taxation. This helps foster fairness in the system and makes utilities more accessible to everyone. It mitigates fluctuations in utility prices. Even when utility rates increase due to seasonal or market fluctuations, sales tax exemptions ensure that consumers are not paying extra on top of rising rates, making the cost of living more predictable and manageable. These points emphasize how the state sales tax exemption on utilities in LB117 directly benefit residential consumers by making basic services more affordable, supporting energy efficiency, providing financial relief, and ensuring greater economic stability for Nebraska households. You were handed a copy of AM100. The white copy amendment simply tidies up some language in the, in the bill and clarifies that the bill only applies to 5.0-- the 5.5% Nebraska sales tax that is collected on the utilities mentioned. Local option sales tax will not be affected. Chairman von Gillern and members of the Revenue Committee, thank you for your consideration of LB117 and AM100. I would appreciate a timely vote by the committee to advance this bill to the floor of the Legislature. I would be happy to answer any questions you might have.

VON GILLERN: Thank you, Senator Holdcroft. Questions from committee members? Senator Kauth.

KAUTH: Thank you, Chair von Gillern. So Senator Holdcroft, this is just for residential property, correct?

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HOLDCROFT: Correct.

KAUTH: Thank you.

HOLDCROFT: Could be commercial-- residential properties, but it's for residential.

von GILLERN: Other questions? Senator Jacobson

JACOBSON: Well, I'll be real honest. I'm, I'm focused on property tax relief, and I think that's what people are going to see the most. If this were a big deal to consumers, we'd have heard from them before now. I think most consumers don't even know that they're being charged a sales tax on their electricity. But yet this does become a fiscal note for the Legislature and the state. And I think we're-- given where our budget is today and all of that, I'm, I'm very concerned that-- unless we're going to be doing additional exemptions, removing exemptions from other sales tax exemptions put in place-- this seems problematic to me. I, I remember-- I guess my question would be, if, if you look over the years, we've passed a lot of exemptions for sales tax. And I think after the legislative session, the people that were here went home and said, gee, we did a great job. We removed some taxes for our constituents. But yet we get a single comment from people all the time about their biggest problem is property tax. That's all I hear, is property tax. I've never had a constituent tell me they have a problem with, with electricity. So I'm curious. You bring this to take the state portion out, leave the local option in. So why are we leaving the local option in if this is a good deal-- or, if we're concerned about the constituent as well-- or, or the, the, the ratepayer?

HOLDCROFT: Well, mostly because of the impact to-- I mean, we, we got a lot of feedback from the municipalities that, frankly, this would be a-- essentially be an unfunded mandate, I suppose, from the state in that we're eliminating their revenue. So there are a lot of places that don't have the occupation tax. And in those cases, obviously there would be full-- there would be no sales tax. But we felt that, that because of the pushback we got from the cities and-- that we needed to leave the occu-- occupation tax in. The other piece I'd like to respond to is, you know, we, we're, we're cutting back on, on property tax. We're trying. I mean, the reason this, this bill came out was in-- it was right in, in the flow-- when, when Senator Wayne brought it the first time, it was in the flow that we're going to cut back on property taxes. I mean, at the time we were talking, you know,

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60% property taxes. And, and, and sometimes that is passed down to renters, but a lot of times it's not. And so this was kind of a, you know, support for those, those people. I mean, we exempt food. We exempt medication from sales tax. We exempt rent from sales tax. And the next logical step to make sure that those low-income families have some support for the, the basics is to, to exempt utilities, so. Now, it's a, it's a huge-- it's a huge fiscal note. I think \$130 million. We don't have it really-- I mean, this is-- we'd have to find it. But I think it's, it's worth considering. And, and I'm will-- willing to work. I mean, if we, we can only exempt electricity or natural gas, well maybe that's, that's one way to approach it and, and, and maybe cut down on the fiscal note.

von GILLERN: Thank you. Other questions from the committee members? Senator Ibach.

IBACH: Thank you, Mr. Chair. That was exactly my question, is, is there a stepped-up or step-down approach where we could exempt one in the short term and come up with those numbers and then maybe graduate it in so that it's not all utilities at one time?

HOLDCROFT: Yes. Certainly work on that. And of course-- and I'm always happy to add in things. Like, if-- commercials, we could make commercial industry exempt to utilities. I mean, that would increase the, the fiscal note, but.

IBACH: Substantially.

HOLDCROFT: Yes.

IBACH: Thank you. Thank you.

HOLDCROFT: I'm very flexible.

von GILLERN: Senator Bostar.

BOSTAR: Thank you, Chair. Thank you, sir. So kind of a follow-up question on some of what was recently said. If we were to implement these, let's say, one at a time for the purposes of accommodating budget constraints, what-- in my mind, it would seem that electricity would make sense to go first since everybody uses it. But I was curious what your thoughts were.

HOLDCROFT: I would rather-- because get-- natural gas is, is what people use most for heat. I mean, people use electricity for air

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conditioning and for heating, but some people use electricity for air conditioning and natural gas for heating. So in, in one way, you could say natural gas is more important because, because you want to be able to heat your house in the wintertime for those--

BOSTAR: They're-- I would say they're probably both essential. You know, if you-- if you're living without heat, you got real problems. If you're living without electricity, you've got real problems.

HOLDCROFT: If you wanted to phase this in, let's say, we might do it, like, at ha-- you know, 2.75%. Cut it back to 2.75% [INAUDIBLE].

BOSTAR: The other question I have is-- I don't see anything in the bill that would permit cities be-- I bring this up because this committee's obviously considered and looked at this legislation before. I don't see anything that would let cities remove the local option piece of this.

HOLDCROFT: The occupation tax, you mean?

BOSTAR: It just sort of-- it, it just--

HOLDCROFT: Uh-huh.

BOSTAR: I guess it maintains it on their end. But in previous discussions on this, I know this legislation had been designed in a way where the state was exempting their share of the sales taxes but there was an allowability for localities to choose to recognize the importance of moving in this direction so they could also do that. Is that something you would support in your legislation?

HOLDCROFT: I'd certainly support that, yes.

BOSTAR: Thank you.

von GILLERN: All right.

JACOBSON: I do have one [INAUDIBLE].

von GILLERN: Senator Jacobson.

JACOBSON: I, I, I just have one other quick question. I, I guess when we start thinking about, you know, leaving the local option tax and, and when we start looking at potentially cutting it in half and doing 2.75%, don't we run into some issues with the uniform sales tax? I

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mean, we're a part of a group and you could get kicked out of that if you're starting to deviate from a standard sales tax. Now, you've got a testifier behind you who's got a lot of the experience on the Revenue Committee, so she may want to address that piece of it. But I guess I would be a little concerned about, are we going to run into some issues there? We had some of that discussion during the special session when we were looking at doing different rates for different items. And so I was just curious if you could speak to that at all.

HOLDCROFT: I will defer, but if, if it's not addressed to your satisfaction, I'd be happy to take that back and find-- get an answer.

JACOBSON: You're probably coming back for a close.

HOLDCROFT: Yes, I will be back for a close.

JACOBSON: All right. I'll keep that in mind.

HOLDCROFT: OK.

von GILLERN: Any other questions? Seeing none. Tha-- thank you, Senator Holdcroft. And we'll invite up our first invited testifiers: Senator Linehan. Please remember to state and spell your name.

LOU ANN LINEHAN: Correctly. I spelled it wrong once. Good afternoon. I'm Lou Ann Linehan, L-o-u A-n-n L-i-n-e-h-a-n. And I'm representing myself. I was invited to be here today. I was a little bit resistant because I know the last thing you want to hear is from somebody who's already been here. But the main reason I thought-- I wanted to show up is I've always just thought it was hypocritical that we say we don't tax things-- sales tax on things that are essential, and yet we tax utilities. And Senator Jacobson is right. People don't notice. The only reason I noticed-- I noticed early on-- was when I first got elected to the Legislature. As many of you know now, it's a bit overwhelming. Much more time involved than you think when you're running. And therefore, I missed paying my utility bill one of the first months I was here. So when it came the next month, I noticed it was a lot-- was, like, double. And I was like, what's the deal? And then I-- we pay sales tax on utilities? That's the only reason I knew. And then maybe my third year, fourth year we're here, we had a big fight over pop and water. Bottled water, pop, candy. I know at the time it was \$30 million a year that we were letting go because we don't tax pop and candy. But we were taxing tap water. So then the next year we did away with taxes on tap water, which was, like, a

six-year effort from different senators. So I think we can't get a-- I, I do believe-- which I argued this summer with many of you-- we should expand the sales base-- sales tax base. I think we should tax pop and candy. I think we should tax pool cleaning. I think we should tax lawn services. But if we're not taxing any of those things, we certainly shouldn't be taxing utilities. It's just not OK. Now, how do we take care of the fiscal note? I mean, I know. It all depends on how much money's in the bank, right? The fiscal note I think is, like, \$140 million for the state. That is a lot this year. I understand that. One of the things-- and I don't think it would affect our position in the-- I think Senator Bostar can answer this better, whatever that group is that I think he's still involved-- you're still [INAUDIBLE]. I think what you could do is you could-- because I know in Virginia, where I did live for a while, state of Virginia, their tax rate is, like, 5.5% or 6%. But on groceries, it's 1%. So what you could do with utilities, make it a lot easier, is just take it from 5.5%, 4.5%, 3.5%, 2.5% and do away with it in five years. And that would be, like, pocket change in the budget. So. Anyway, I just think-- it's just not right to tax electricity if we're not going to tax other things.

von GILLERN: All right. Thank you. Thank you for your testimony. Questions from the committee members? Senator Bostar.

BOSTAR: Thank you, Chairman. Thank you, Senator. To your recollection, does it sound accurate to say that previously when we were examining variations on sales tax rates and looking at being in compliance with the streamlined sales tax interstate agreement, that by changing classifications to excise taxes, in some respects, we're able to have deviations on rates without causing too much problems?

LOU ANN LINEHAN: This sounds very familiar. Thank you, Senator Bostar. I think you're correct.

BOSTAR: Thank you.

von GILLERN: I don't know if that was a question, but thank you.

BOSTAR: I asked if-- I asked it sounded right.

von GILLERN: It did sound right. Thank you. And I was busy looking it up because I had SUTA but I couldn't remember what it stood for, so. Thank you. Any other questions from committee members? Senator Jacobson.

JACOBSON: I, I'm almost hesitant to ask the question because I-- the, the last time I had a, a, a young female lobbyist come up to-- at the-- she, she really lit me up. So I, I just want to tread cautiously. And, and Senator Bostar was in the-- or, Senator von Gillern was in that meeting at the time, as was Senator Kauth, and so they know what I'm talking about, but. I guess-- I don't disagree with what you've said. And, and-- but having been in the chair here, it, it, it seems to me that if we can repeal some exemptions, as you've suggested-- and I would agree with all of those that you listed-- and there's probably several more-- to be able to fund not only a potential exemption for residential electricity but also to generate dollars for property tax relief, would it not be better for us to do them together as opposed to piecemealing, where we do another exemption without repealing any of the exemptions that we've already done over the years?

LOU ANN LINEHAN: It-- I like to do big things, as you all know. We-- I tried to do big things. It's very hard to do big things. I, I think it would be good if you could do some trade-offs. Maybe that's more politically-- not politically-- just more doable. OK. We're not going to tax utilities, but we are going to tax this. I don't know how many bills got introduced to do anything. If you got bills, you could-- you're the committee. You can-- surely somebody's got bills that they can-- you can use this bill. I'm sure Senator Holdcroft would be happy to work with the committee and figure out how you can pay for this. Because we have done a lot on property taxes. I just looked at the financial status, and I think that first line under net revenue is property tax relief. And I think for this, this biennium, the first year's 1.0-- almost \$1.7 billion. The next one is \$1.735 billion. So we're doing a lot on property taxes. Not enough. I, I get it. Not enough. But this-- it just-- we cannot-- I just go back to hypocrisy of saying we don't tax things that are essential, but you got to heat your home and you got to have electricity in today's age.

von GILLERN: Thank you. Any other questions? Senator Ibach.

IBACH: Thank you. I was just reading the comparison. And I know we oftentimes say, how does Iowa do it or how do our neighboring cou-- states do it? Do you think that there's-- and I'm new on the committee, so I'm sure this has been discussed before-- but do you think that there is pressure on us from this perspective to stay competitive as a state? I mean, we always say, you know, what [INAUDIBLE] would you for property taxes, et cetera. Are exempting utilities-- it looks like most of our neighbors do exempt them.

LOU ANN LINEHAN: I, I don't know how-- they've not been exempted before. It-- like I said, the whole time I was here, I thought that was something we could address. But it was also amazing to me how hard water was, to get water off. I mean, you can live without heat and electricity. You cannot live without water. So we did get that done. I think-- yeah. I don't know if it's a-- this is one of those things I just think it's the right thing to do. Like, I don't, I don't know if it's competitive or not, but you shouldn't be taxing people on things they have to have.

IBACH: OK. Thank you.

von GILLERN: Thank you.

JACOBSON: I just have one last question.

von GILLERN: Senator Jacobson's last question.

JACOBSON: It's my last question for this testifier. And I, I kind of want to just get this number out there and kind of get your reaction to it. But meeting with the governor earlier and we were looking at what's happening to property taxes for all the political subdivisions combined. And I was at a meeting yesterday, and I think I threw out there-- my recollection was it was \$250 million a year in terms of what it's increasing. OK? Just through the costs and so on that they've incurred at the political subdivision level. So no matter what-- unless we are going to provide more than \$250 million-- and, and by the way, Senator Clements was there and corrected me and told me it's \$225,000. I think I-- \$225 million. I think he probably could have gotten it down much closer to the penny. But-- so when people talk about the states, we say we're doing all these things, and we have done a lot, but yet they say, but my property tax bill is not going down, until they got the bill this last year and it did go down. But the concern is, is that in order to keep property taxes flat, there's going to have to be \$225 million a year going out to the political subdivisions. And, and of course, you got one big one and then you've got the others. So that seems to be a big number. I'm just-- I don't know whether you looked at it that way in the past, but it's a daunting task in terms of how do you get-- how do you find that revenue and how do you best distribute that revenue, coupled with the fact that we have to fix the hole in the bottom of the bucket. Because we can dump all the money we want on the top of the bucket, as you've seen over the years, but it-- we got to also be focusing on how do we

fix the hole at the bottom of the bucket at the political subdivision level.

LOU ANN LINEHAN: Part of-- I think part of what we have done over the last several years-- many of you've been involved in this-- is I think there's more awareness now in the public across the state about who we pay property taxes to, where they go. And part of the reason I feel more confident in public-- the public's knowledge is we spent so much time here on it. But I also-- when you see bonds failing, as we did the last cycle, several school bonds, other bonds failed, it-- I think people now understand that they've got some responsibility themselves to pay attention to what their local entities are doing and to hold them accountable. And all the work that Senator Hansen did with Truth in Taxation, I think that some of that is helping. It's not enough yet, but, as you know, it's everything. You got to do everything. There's not one magic bullet here. It's all of the above.

JACOBSON: Thank you.

von GILLERN: OK. Seeing no other questions. Thank you for being here today.

LOU ANN LINEHAN: Thank you for letting me come.

von GILLERN: Pleasure. First proponent testifier. Any other proponent testifiers?

CHRIS DIBBERN: Good afternoon--

von GILLERN: Good afternoon.

CHRIS DIBBERN: --Chairman von Gillern and members of the committee. My name is Chris, C-h-r-i-s; Dibbern, D-i-b-b-e-r-n. And I am the Nebraska public advocate for natural gas ratepayers, representing residential and small businesses under the statute 66-1840. I'm in support of LB117 and AM100. And thank Senator Holdcroft for introducing it and thank you to the committee in the past for the-- good public policy. LB117 is all about tax relief for every household in Nebraska. Sa-- sales tax exemptions for residential utility products can vary from state to state, but over 30 states exempt utility services like electricity, water, sewer, propane, and natural gas from state sales tax for residential customers. There are nuances on each state. De-- some of them depend on low income. Some of them are levels of usage. Some of them are different rates for commercial versus industrial or specifically grandfathering in county- and

city-level taxes like Texas. So they, they do the, the AM100. Exempting state sales tax on residential-- and I'll use natural gas for example-- for customers is considered for very-- for important reasons. And Senator Holdcroft listed them for you. I have passed out part of my statement, so I won't read it to you. But there were seven reasons, and they're around affordability, fairness, and public policy goals. So those key reasons are in there-- in, in there. I just wanted to offer the last two that were not hit upon. Encouraging energy efficiency and environmental goals is another piece of-- when you don't tax it, that it puts a little bit more money for-- some states do energy appliances, home insulation, renewable in-- initiatives, promoting a greener and more sustainable energy, relief during high prices-- Senator Holdcroft mentioned that. Get-- electric prices and natural gas prices really vary on weather, on geo-- geopolitical events, on supply and demand. So putting a tax on top of these spikes is even worse for homeowner-- for, for homes. Sales tax is a simplistic administration. I think it's a good way to do it. And in conclusion, residential utilities is a way to ensure energy that's affordable, that's accessible, and that's not burdensome for households. It spe-- especially helps young families and especially helps elderly families. We're talking about kind of the core part of daily life, people that are in their homes. It's very important to heat and cool them and make it affordable. And, and Senator Jacobson, I'd like to answer some of your questions if I had time. Remember, they built the Capitol in the Depression, the worst time that they possibly could build. Do I know that fiscal note is high? But take away the local option sales tax portion of that fiscal note and you've cut it dramatically. And grandfathering in existing local option sales tax makes sense because local communities have utility costs too. They're in the right-of-ways. There's relocation costs. There's the regulation of utilities on the local level. So there's some reason why a local option sales tax could exist different than state sales tax. I would love to talk to you about funding opportunities. And I'd be happy to answer any questions. My phone number's on there. I do have quite a few ideas on funding opportunities. I don't want to put a big target on my back here, but I'd be happy to talk to you about that. But you mentioned some of them already and some good ideas already. And, and also, you know, growing the economy is something we hope to do in the future too. I think this bill does that. And also very optimistic for Nebraska. So any questions?

von GILLERN: Very good. Thank you. Any questions from the committee members? Seeing none. Thank you for being here.

CHRIS DIBBERN: I will be around for the next six years, so

von GILLERN: Look forward to-- pretty confident. I like that. I like that. I'm not sure any of us can say that on this side of the table. Next proponent.

JOHN LINDSAY: Thank you, Senator von Gillern, members of the committee. I was going to say that I'm in an unusual position in that I-- probably scary to Senator Linehan that she and I are actually going to agree. I'm not sure that's happened before, but Senator Holdcroft has brought us together. My name is John Lindsay, L-i-n-d-s-a-y. I am appearing as a registered lobbyist on behalf of Black Hills Energy in support of LB117. I'm not going to speak long because I think the others have set forth the issue. And the issue that-- I think the core issue is, is, are utilities a necessity or a luxury? And I don't think anybody who's survived a Nebraska winter would call utilities a luxury. For those outside the state, it's, like, 50 degrees out and sunny, and that's typical Nebraska weather. For those inside the state-- yeah, we need natural gas, electricity, other forms of energy. So we would support this. We do understand that it is a, a-- it's a hit on-- the fiscal note is significant, but the issue is correct. It's, it's a question of priorities. And fortunately, sitting on this side of the desk, I don't have to make those priority decisions. And that's, that's why you get paid the big bucks. But it's-- that's what it comes down to, is, where-- what are the priorities? And, and it probably is a priority for, for the ability to live in a state like Nebraska to have access to that energy at the lowest possible cost. And I do think that while people-- and when I was in your position, I had the same thing. People cared about property taxes, and that was-- these-- I think Senator Jacobson's right. That is the significant tax that they cared about. But I think a lot of that is because they get a property tax statement each year and have to physically write out a check, as we all do, to, to pay those taxes. I think if they had to physically write out a check to pay sales tax on energy and were notified that of every year, I think they might have a little different position. But it does get added in to everything else. And, and I think folks out there are hurting. And the-- so. We would support this bill. And I'd be happy to answer any questions.

von GILLERN: Thank you. Any questions from committee members? Seeing none. Thank you for being here.

JOHN LINDSAY: Thank you.

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von GILLERN: Next proponent. Any other proponents for LB117? Seeing none. Any opponents to LB117? Seeing none. Anyone who'd like to test-- oh. Opponent or--

LYNN REX: Opponent.

von GILLERN: Opponent. Got it. Thank you. Good afternoon.

LYNN REX: Senator von Gillern-- hello. Senator von Gillern, members of the committee. My name is Lynn Rex, L-y-n-n R-e-x. Representing the League of Nebraska Municipalities. And first, I'd like to start by saying that our opposition is to the green copy the bill. We're very, very appreciative that Senator Holdcroft is being sensitive to the issues that this would-- how this would face local option sales tax municipalities. In your handout, just very quickly, just-- as an overview-- and I know some of you have seen these numbers before. There are 265 municipalities in the state with local option sales tax. There are a total of 528 municipalities, but these are voter approved for specific purposes. The second sheet basically has the graph, the chart put together by the Nebraska Department of Transportation outlining basically how these funds flow. And that's why the fiscal note references the Highway Allocation Fund. 50% goes to counties, 50% to cities. And the LB84 2011 issue dealing with sales tax, a quarter and one cent going to the Build Nebraska Act. And that's why-- just thought in case anybody had questions, since a couple senators have asked me in the Rotunda how this all interfaces that might be helpful. And then in terms of just some of those municipalities that have responded to fiscal notes and other sorts of things in terms of local option sales tax. I'll just read you a couple numbers, the highest being Omaha in terms of loss of local option sales tax of \$11.4 million, down to the smallest that responded to some of the fiscal note requests. Little Pierce, Nebraska, \$13,788. For example, in North Platte, it's \$424,000. So it depends, obviously, on the municipality. And the rates are different. I mean, the rates go from a half cent up to a maximum 2%. So in any event, we are extremely appreciative of AM100 and hope that if you decide to advance this bill that you will advance it with AM100. With that, I'm happy to respond to any questions that you might have.

von GILLERN: Any questions from the committee members? Seeing none. Thank you for your testimony.

LYNN REX: Thank you very much for your courtesy. And thanks to Senator Crawford for-- Holdcroft, not Crawford. Thank you.

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VON GILLERN: It's Friday.

LYNN REX: It's Friday.

HOLDCROFT: I've been called worse.

VON GILLERN: Any other-- any other opponent testimony? Seeing none. Anyone who'd like to testify in a neutral position? Seeing none. Senator Holdcroft, would you like to close? And as you come forward, we had 11 proponent letters, 7 opponent letters, and 1 neutral in the written testimony record.

HOLDCROFT: Thank you, Chairman. To answer Senator Ibach's question, we do, do have a list here. I don't know if you have the list also. There are 44 states that do have exemptions for sales tax on utilities, including Colorado, Iowa, Kansas, Missouri, and South Dakota. So all neighboring states except for Wyoming, I guess. They don't. But-- so, yeah. The-- there are many, many states that do exempt utilities from-- I mean the sales tax from utilities. And it really comes back to Senator Linehan's, that this is just the right thing to do. I mean-- is to provide relief for the necessities, for, for food, for medicine, for rent, and for utilities, to, to relieve these families of, you know, you know, the sales tax that goes along with that. I don't know if your question was asked. Wou-- answered. Was it Senator Jacobson? And if not, can you write it down in large letters for me so we can, can address it?

JACOBSON: I'll follow up with a question so that-- the-- I, I think Senator Bostar kind of danced around it and gave me a partial answer. So I, I, I'm, I'm not quite sure how the mechanics of that would work, but, but, yes. But I, I guess my question-- and I, I always appreciate the question of, OK, what are other states doing on this one particular exemption? But I think you have to look at it in a totality and you look at-- you have to look at their total tax system. So as an example, I would assume that-- what does-- do you know what South Dakota does in terms of taxing electricity?

HOLDCROFT: All we have is what the, the law is that goes along [INAUDIBLE]. So it doesn't-- it just has the code. I'm-- doesn't say where--

JACOBSON: OK. And the reason I raise that question is South Dakota taxes almost everything onto sales tax. And, and because of, they don't have any state income tax and, and they don't have high property

taxes. And, and I think that's why some people were intrigued with the shiny object called EPIC tax because, gee, this is going to fix all of our ills. Well, I, I'm not a believer in EPIC for a lot of reasons, but I do think that-- and I, and I long held that, that sales taxes are a better way to get there as long as they aren't impacting consumers and they're not impacting business inputs. But I think when you're looking at some of the items that Senator Linehan mentioned-- and there were a number more that were submitted-- or, suggested during the special session-- I, I'm still baffled that we haven't proceeded-- and I-- hopefully we will this session-- to repeal some of those and generate revenues that we need so that we could afford to consider this. Because I get it. This, this is impacting consumer, particularly it's impacting renters directly. And I, and I, I get the fact that is trying to reduce renters' costs. But I get also that the cities can't afford to give up their local option tax. But the last I checked, we have a \$432 million deficit. So it's not like the state's flush with money to be able to give up that income as well. And so to me, this is more of a timing issue and it needs to be coupled with how do we do revenue replacement, but not just replacement, but generate significantly more revenue. So I, I'm assuming you would-- and I guess I would just ask the question, how you'd feel about just modifying this bill to add or repeal other exemptions as part of the funding to be able to figure out how we could fund this.

HOLDCROFT: I would be happy to work with you on that. Yes.

JACOBSON: All right. Thank you.

von GILLERN: Any other questions? I just have a quick question. I'm trying not to do the math here and pay attention to the testimony. Do you know what the fiscal note would be without the local option sales tax being added in?

HOLDCROFT: I do not, no. I don't know if we've had that done--

_____ : It includes it. That, that-- 109 include-- that, that doesn't include the-- that's just the state portion of it.

von GILLERN: OK. So. Senator Holdcroft.

HOLDCROFT: That includes it.

von GILLERN: Thank you. I get it. That's all right. Thank you. So that-- so the fiscal note is reflective of the AM-- the white copy amendment.

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HOLDCROFT: You know what? Sorry. Just yes or no.

_____ : No, no. It, it is. It is. Yes.

von GILLERN: OK.

HOLDCROFT: Yes, it is.

von GILLERN: Thank you. So Senator Bostar now is a question.

HOLDCROFT: Oh.

BOSTAR: Senator Holdcroft, the chair makes me make them all questions, so I apologize. On the fiscal note, because it's referencing the general funds, that's only representing what hits the state's budget. So the amendment, to your knowledge, doesn't have any impact on what the, the fiscal note for your bill would be? Does that sound right?

HOLDCROFT: Yes, that sounds right.

BOSTAR: Thank you, sir.

von GILLERN: Thank you. We have great clarity. Appreciate that. Any other questions? Seeing none. Thank you, Senator Holdcroft.

HOLDCROFT: Thank you.

von GILLERN: That closes our hearing on LB117. And we will open on LB314. Welcome, Senator Sorrentino. Welcome, Senator Sorrentino.

SORRENTINO: Thank you. Good afternoon, Chairman von Gillern and members of the Revenue Committee. My name is Tony Sorrentino, T-o-n-y S-o-r-r-e-n-t-i-n-o. And I represent Legislative District 39, which is Elkhorn and Waterloo in Douglas County. Unlike a prior proponent for Senator Ha-- Holdcroft's bill, I cannot absolutely, positively guarantee you I will be here for seven years. That's up to the voters, but. LB14 [SIC] is the legislative bill I bring to you. It is a-- often used term today-- cleanup bill with clarification language regarding the turnback tax under the Sports Facility Financing Assistance Act. That act was first introduced in 2010 and has since then has had several amendments. To be clear, for not the members of the committee but anybody listening in or in our audience today, turnback tax is sales tax revenue that is returned to local governments to help fund projects. Under the act, when a qualifying sports arena is built, the increased sales tax within the turnback

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zone and within 600 yards of that facility is used to support the sports facility. The period to look at the increased sales tax is 24 months before and 48 months after the completion of the project. The most recent amendment-- passed just last year-- was LB1197, brought by the current Revenue chair, von Gillern. LB1197 allows for a political subdivision and a nonprofit to be co-applicants and enter into a contract, create a public/private partnership to request turnback funds. A private nonprofit can agree to build and operate a sports facility. And the size and type of sports played at that facility, whether it be volleyball, basketball, football, whatever, whatever it might be, is determined by the co-applicants and the needs of their community. The application is approved by a turnback board, which consists of five members: the governor, the State Treasurer, chairperson of the Nebraska Investment Council, the chairperson of the Nebraska State Board of Public Accountancy, and a professor of economics on the faculty of a state postsecondary educational institution appointed by a-- for a two-year term on the board by the Coordinating Commission for Postsecondary Education. A majority of the board must approve the application, with the governor voting in favor. The board looks to determine if the new facility is in the best interest of the state. Two clarifications. The first one being is when a-- co-applicants can apply to the board for approval. It allows the co-applicants to apply earlier in the process, when both applicants have approved a resolution to acquire, construct, equip, or improve the facility. This application is not permanent. If the co-applicants are approved by the board but the building is not completed within 24 months, the approval is rescinded. If a nonprofit agrees to build and operate the facility, the nonprofit is taking on the risk of failure or default. But the facility is eligible for turnback dollars. State assistance can be used in one of the following ways: to lease all or a portion of such nonprofit sports facility for the governmental use of a political subdivision; two, promote sporting events which are open to or made available to the general public; or three, to pay back amounts expended or borrowed through one of the more debt-- one or more debt issues to be expended by the nonprofit corporation co-applicant to acquire, construct, equip, or equip a privately owned sports complex subject to voter approval. That's the first thing. The second thing this bill looks to accomplish is to limit the time of the lease for all or a portion to such a facility to no more than 20 years. The current language of the original bill does not specifically state the eligible term for the lease, so this is merely adding what we feel to be a reasonable term for that lease. I thank you. And I'm happy to answer any questions you

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may have. And I do have others coming behind me who could also answer questions. Thank you.

VON GILLERN: Thank you, Senator Sorrentino. Questions from the committee? Senator Dungan.

DUNGAN: Thank you, Chair von Gillern. Thank you, Senator Sorrentino. I've had to play catchup on this the last couple years in understanding how this all works. Just to put it plainly, I guess, what, what ill is this seeking to fix? What is the--

SORRENTINO: What ill?

DUNGAN: --what is, what is the current problem with our statute and what is this trying to fix? Because it, it-- it just-- I'm just trying to make sure I understand what the actual issue is that we're addressing with this.

SORRENTINO: I, I don't think there's a current problem other than a cou-- one of the things was a-- there's no term limit on the lease. We need to have a term. Secondly, we wanted to clarify when we have this what I call public/private co-application, exactly how that will work, the order of the applicants, and making sure that the funds are still used in the same place. This is not rewriting the statute in any way, shape, or form. I wouldn't even say it's amending it. I would say maybe a little bit improvement on the language as this-- I'm guessing there could be further improvements this year down the road. It's a work in process.

DUNGAN: So is it fair to say that a lot of this-- I mean, you said it's kind of a cleanup bill. This is creating clarifications as it pertains to the application process, essentially?

SORRENTINO: I would say clarification's a good word, with the addition of the lease term.

DUNGAN: OK.

SORRENTINO: That not being a clarification, that being an addition.

DUNGAN: That makes sense. Thank you.

SORRENTINO: Thank you.

VON GILLERN: Any other questions from the committee? Senator Bostar.

BOSTAR: Thank you, Chair. Thank you, Senator. What's the-- I don't remember. What's the current ownership requirement split here? So if you exercise turnback provisions in a public and private engagement, what a-- what's required to be owned?

SORRENTINO: That's a great question. And I don't have it off the top of my head. I apologize.

BOSTAR: OK.

SORRENTINO: There may be somebody else who does, but I do not know that.

BOSTAR: What's-- I'm try-- so the lease-- so this would allow turnback to be used to pay for lease payments? Is that--

SORRENTINO: Lease payments for the facility to general public or et cetera, governmental use.

BOSTAR: So in that regard-- so-- I'm just trying to work my way through it. So if you had a project-- you had a public/private application for turnback taxes, that could then be passed through to pay for a lease on some third facility that, that did one of those things.

SORRENTINO: Correct. That facility.

BOSTAR: OK. That facility could be a private facility.

SORRENTINO: It could be, yes. It could be. That's my interpretation.

BOSTAR: OK. So the turnback would just be a-- the partnership would act as a pass-through for the turnback funds to that other entity.

SORRENTINO: Correct.

BOSTAR: Thank you very much.

von GILLERN: Thank you. Senator Jacobson.

JACOBSON: I've just got one question. I-- dealing with the turnback taxes. I, I think the philosophy behind turnback taxes was this was going to help these entities get off the ground and that the goal is they're going to bring substantial-- substantially more revenue, sales tax revenue to the state and we'll recoup that turnback tax and much, much more with, with this program. Is that kind of your understanding?

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SORRENTINO: Correct. In some ways, I-- a mini good life. I didn't say that out loud.

JACOBSON: I was wondering if somebody was going to say that out loud.

SORRENTINO: I, I-- well, I did. [INAUDIBLE]. But that's the-- yes, that is the concept.

KAUTH: He learns fast.

JACOBSON: Thank you.

von GILLERN: Developed a tic. Are there questions from committee members? Want to make sure I ask a question here. It's my understanding that-- you can confirm or affirm-- in addition to what Senator--

SORRENTINO: You might be able to confirm it better than I can.

von GILLERN: --in addition to what Senator Jacobson said, additional benefits to these turnback programs. The-- they're just-- they're good for the community. They allow places for, for kids and recreation and-- they're just good for the community. Plus, they typically-- most of these develops have other anc-- developments have other ancillary development that grows around them, which it-- brings additional sales tax revenue. All true?

SORRENTINO: True.

von GILLERN: True. Thank you. All right. Seeing no other questions. Thank you. Senator Sorrentino, I know you'll stay for a close. Any proponent testimony? Good afternoon.

ANTHONY CARROW: Good afternoon, everyone. My name's Anthony Carrow, A-n-t-h-o-n-y C-a-r-r-o-w. First, I would like to thank you for the opportunity to speak on behalf of youth sports as the Director of Nebraska Elite Volleyball, a 501(c)(3) here in the state of Nebraska. Nebraska is the volleyball state. The retirement of coach-- of the coach-- of-- at Nebraska, John Cook, and the hiring of Dani Busboom, a former club volleyball player in the state of Nebraska to take his place, has made national news. Every national news-- sports news has covered that activity. Not only do we have the University of Nebraska as a top program, we also have a top program in Creighton University, who was two points from footing a second team from Nebraska in the NCAA Division I Final Four. Also in Division I is the up-and-coming

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University of Nebraska program. We also have the top teams in Division II ranks, as well as the national runner-up in the NAIA national championship, along with several other top 20 programs in the state of Nebraska. We currently as an organization have eight players at the above mentioned Division I programs and over double that at the other levels of college volleyball ranks playing in Nebraska, helping those programs be what they are: highly competitive. As the competition ramps up around the country, training and developing young athletes to play at the college level, the need for more space in Nebraska is well-documented by John Cook, the former head coach-- and it's hard to say that, the former head coach-- of the University of Nebraska. And we have his letter that he wrote to the committee last year that we passed around. We need your help. We are out of space in our current facilities and are turning away over 200 players a year, players who in some cases just haven't hit that growth spurt or mor-- motor control level to make the-- them a potential scholarship athlete. We are out of space for holding the largest event that we run, the ASICS Presidents Day Classic. You were asking about economic impact. This event annually has been one of the top drivers of economic impact to Omaha and the state of Nebraska. With teams traveling from all over the country and Canada, we annually bring in just shy of \$10 million in economic impact a year. Second only to the College World Series as far as sporting events. And third in the state of Nebraska to the-- obviously the Berkshire Hathaway shareholder meeting. They spent a little bit of money in Omaha during that event. This year, we turned away almost 100 teams due to no more space to hold this event. That represents a loss in economic impact for 2025 of \$1.7 million. So, yes, to your question earlier, Senator Jacobson, we could pay for this-- pay it back very quickly through just our one weekend of what-- that we have an event, not counting anything else we do. Construction costs have skyrocketed, making it impossible to make the numbers work for any youth organization to take on such a project. As in the John Cook letter from 2024, we are behind in the construction to train-- at facilities to train youth athletes. Our neighboring state, the state of Kansas, has helped fund a new complex through Sporting KC through STAR bonds. Sporting KC is a \$630 million sports company that owns a pro soccer team, and some of the competitors in our arena, one of them being PVA, who are training athletes to take scholarship opportunities away from those in our state. They clearly could have done it on their own, but we're able to make sen-- but we're not able to make sense of it as a business. They sought to get help from the state of Kansas and they got it. To close, quoting John Cook, help us provide more opportunities for Nebraskans that want to play youth sports. This is a

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quality-of-life issue for young Nebraska families. If we are trying to keep the best and the brightest in the state of Nebraska, this will make a difference. Thank you.

VON GILLERN: Thank you for your testimony. Questions from the committee members? Seeing none. Thank you for being here.

ANTHONY CARROW: Thank you very much.

VON GILLERN: Any other proponent testimony? Seeing none. Any opponent testimony? Seeing none. Anyone who'd like to testify in a neutral position? Seeing none. Senator Sorrentino, would you like to close?

SORRENTINO: Senator von Gillern, I'll, I'll waive my close.

VON GILLERN: Waive closing. No questions. Very good. Thank you. That'll close our hearing on, on LB314. And we will open on LB212. Has anybody seen Senator Wordekemper?

DUNGAN: His LA's here.

VON GILLERN: He is here?

DUNGAN: LA's here.

VON GILLERN: Oh. Got it. OK.

KADEN ROBINSON: He's on his way. [INAUDIBLE].

VON GILLERN: OK. Thank you. Oh. Thank you. Going back to LB314. We had no online comments for LB314 for the record. We'll wait for Senator--

[BREAK]

VON GILLERN: Are we back online now? OK. We're recording. Senator Wordekemper, good afternoon. Welcome to open on LB212.

WORDEKEMPER: Good afternoon, Chair Gillern. Thank you for allowing me to speak. Committee members, thanks for not everybody getting up saying they got a hearing somewhere else. Appreciate that.

VON GILLERN: Well, not yet.

WORDEKEMPER: I'm Senator Dave Wordekemper, D-a-v-e W-o-r-d-e-k-e-m-p-e-r. I proudly represent Legislative District 15, which includes Dodge County and a portion of western Douglas County.

I'm here today to introduce LB212, a bill that would cap the tax on premium cigars at a \$0.50 per cigar limit. I'd like to start by noting a couple of things. First, I'm not carrying on former Senator Justin Wayne's tradition. I did not know that he introduced a cigar bill in the past, but I didn't want you guys to feel left out. This was actually brought to me by a, a constituent in my district that has a cigar shop, and that's, that's where this is coming from. This legislation only affects premium cigars, not cigarettes, not cigarillos, and no other tobacco products. Nebraska currently imposes a 20% excise tax on premium cigars with no ceiling on the amount that can be charged. This bill would maintain the 20% excise tax, but would simply cap it at \$0.50 per cigar. This means that for cigars on which 20% of the price would exceed \$0.50, the tax would be limited to \$0.50. Nebraska's brick-and-mortar retailers are currently facing a double challenge: competition from online retailers-- who are not currently subject to the state's excise tax-- and neighboring states that have more competitive tax policies. Almost all of our neighboring states have either lower excise tax rates or a tax cap. Iowa adopted a \$0.50 tax cap in 2007. Colorado is considering an excise tax reduction on cigars. And Wyoming is actively considering eliminating excise taxes entirely on tobacco products except cigarettes. Meanwhile, online sellers can and do offer these same products to consumers at substantially lower prices because their consumers are not subject to the 20% state excise tax when the purchase-- when they purchase online. Thus, online retailer prices need to reflect the passing of the tax on to the customer. This proposal-- this proposed cap is a proven policy solution that has been adopted in 15 states across the country. While the number of states have ad valorem tax on cigars, meaning there is no ceiling on the tax amount, tax caps have emerged as an effective tool to support local businesses while maintaining stable revenue. Michigan provides a particular instructive example. They enacted the tax cap in 2012 with a five-year sunset. In 2019, they voted to permanently adopt the tax cap. This mirrors what we've seen across the country. Tax caps have proven to be either revenue neutral or, in some cases, revenue positive due to increased sales at in-state retailers, as customers return to local shops instead of buying online or across state lines. I would like to specifically note that cigars are not being used by our youth. The 2023 Youth Tobacco Survey showed that cigars-- cigar use has declined dramatically since 2014, when 21% of students reported ever using cigars. In 2023, we reached the lowest rate ever recorded, with only 6.4% of students reporting ever using a cigar. Even more significantly, current use among students has dropped from 7% in 2014 to just 1.8% in 2023. While

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usage is very low and in decline, LB212 would only promote in-store purchases as opposed to online. It is much more difficult for a child to obtain a cigar if they are forced to attempt to purchase that cigar in person. While the fiscal note shows a modest revenue decrease based on current sales patterns, this signif-- the static analysis doesn't capture the dynamic effect we've ev-- we've seen in other states. When consumers can purchase premium cigars at competitive prices locally, they do so supporting local businesses and keeping tax revenue in our state rather than seeing those dollars go to online sales. Following me, you will hear from Nebraska business owners and industry experts who can speak directly about how this issue affects their stores. These are Nebraskans who want to compete fairly, hire locally, and contribute to our communities. They're not asking for special treatment. They're asking for a level playing field in an increasingly competitive marketplace dominated by online sales and surrounded by states with more favorable tax policies. In our campaigns, nearly every member in our-- of this committee emphasizes the importance of competitive-- of being competitive with neighboring states and supporting local businesses. That's what this bill is intended to do. Be happy to answer any questions if I can.

VON GILLERN: Thank you. Questions from the committee members? Senator Sorrentino.

SORRENTINO: Thank you, Chairman von Gillern. Just so I got the math right, so this bill would only affect cigars that exceed \$2.50 apiece?

WORDEKEMPER: Yes.

SORRENTINO: [INAUDIBLE] \$0.50 times \$0.20, \$0.50.

WORDEKEMPER: Yes.

SORRENTINO: So anything under that--

WORDEKEMPER: You're subject to the 20%.

SORRENTINO: Right. And-- I'm a little bit of a novice. Are most cigars more than \$2.50? I have no idea.

WORDEKEMPER: There will be some gentlemen behind me that can speak to that. But I think on average, what the, the normal consumer is doing, I would guess maybe between \$10 and \$15 for a cigar.

SORRENTINO: Per, per cigar?

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WORDEKEMPER: If, if you're going to a cigar shop. And, and these are for premium cigars, which, you're not-- if you're thinking about kids or, or students, they're not going into these buildings. So it's for the, the gentlemen that go in. And one thing I wanted to bring up-- I know I talked with a few of you guys about bringing an amendment. I'm not bringing an amendment at this time. We're just going with this bill that I introduced. And we're doing further research on an amendment if it's even feasible to do, so.

SORRENTINO: Thank you.

von GILLERN: Senator Kauth.

KAUTH: Thank you, Chair von Gillern. And I think the amendment is what you and I had talked about--

WORDEKEMPER: Yes.

KAUTH: --as far as-- rather than cutting the taxes, the sales tax here, putting an excise tax on the online stores so that then they would both have the same type of taxes so there would be no benefit to going online, correct?

WORDEKEMPER: Yes. And so--

KAUTH: And so you're not doing that one?

WORDEKEMPER: We-- as we looked into that, in realism, what we're trying to do here by putting the \$0.50 cap on it will basically do the same thing because more people are going to come in and there's going to be a lot of things to do putting in that excise tax as far as the Department of Revenue, licensing of the online people to sell in the state. So there-- it's a lot more work-intensive. I believe some people behind me can maybe speak to that a little bit more, but initially what we're doing here will help level the playing field and we may not have to bring the amendment.

KAUTH: OK. Thank you.

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

JACOBSON: Well, my-- I guess my question kind of ran towards what Senator Kauth asked. It seems to me that it would make sense to bring online retailers up to the same level as in-state retailers. I mean, when you're talking about capping it at maybe 1/4 the price of

retail-- of a, of a premium cigar, that seems to be-- setting that number pretty low. And, and we're looking at a \$500,000 fiscal note. So I'd have a lot of indigestion to pass the bill the way it is. So I, I guess my suggestion would be-- or, my question would be, are, are you-- are there thoughts that you would have in terms of getting this fiscal note down? Because it's-- you know, I understand this isn't impacting children, but people are spending, you know, \$10, \$12, \$15 per cigar. I'm not sure that the tax is going to get too much in their way of, of buying it. And, and if, if, if the problem is online retailers, maybe we need to come up with an avenue to be able to put them at a par with, with retailers in, in state. Any thoughts there?

WORDEKEMPER: Initially, when we were looking into this, the goal of, of this bill is to, like you said, a level playing field. And, and how we get there, you know, does not matter specifically for me. But I think there's some testifiers behind me that can speak to that. I think it's more of a labor-intensive and process to get that done, but certainly willing to look at those options.

JACOBSON: And, and I would just say that for \$500,000, we could probably incur a little bit of labor.

WORDEKEMPER: Certainly.

von GILLERN: Any other questions? Senator Dungan.

DUNGAN: Thank you, Chair von Gillern. And thank you, Senator Wordekemper, for bringing this bill. I thought maybe it was just a, a favor to keep the bill going from Senator Wayne. I don't know. We've heard that a couple times. But it sounds like to me-- correct me if I'm wrong-- it sounds like to me the goal of this bill is not simply to dissuade online sales, but it's to encourage individuals to go to their local cigar shops. Is that fair to say?

WORDEKEMPER: Correct. And--

DUNGAN: So I was just going to say, say, so it sounds like to me what you're trying to make sure we do is encourage folks going to these local shops by having that cap on the ad valorem tax rather than simply saying we're going to increase the tax on online sales. Because if we did that, and if Senator Jacobson's point is correct, that in fact people buying cigars don't care about paying the extra taxes, they might just continue to buy them online. So is it fair to say then

the goal here is that economic development factor by encouraging folks to go to the local cigar shops with that cap on the ad valorem tax?

WORDEKEMPER: Correct. And so with the \$0.50 tax cap, it should drive them back to local establishments who are employing people within our communities paying taxes for brick and mortar. And so, yes. However we can do that, I'm willing to work with the committee and all those that have a stake involved to get, you know, the sales back in Nebraska.

DUNGAN: And maybe the people after you can speak more to this, but when we're talking about this premium cigars, we're not talking about folks going into a Casey's and, and necessarily buying something. We're talking about folks who go to a, a specific shop, has their own humidor, for example, someone who can walk you through what you're going to be buying. We're talking about a more controlled environment where we're not going to see, like, kids, for example, just coming in and trying to purchase these things.

WORDEKEMPER: Correct.

DUNGAN: OK. Thank you for clarifying that. I appreciate it.

von GILLERN: Seeing no other questions. Thank you for your opening. We'll invite up the first proponent testifier. Proponent. Good afternoon.

ANTHONY GOINS: Good afternoon. Boy, this is a familiar chair. I think first of all, I want to thank Chairperson von Gillern and our vice chairperson, Senator Jacobson, and esteemed members of this Revenue Committee. My name is Anthony Goins, spelled A-n-t-h-o-n-y G-o-i-n-s. Most better known as Tony. I'm the co-owner of the Capital Cigar Lounge in Lincoln, Nebraska and the Apiary Social Club in Omaha, Nebraska, along with two other partners: Paul West and Austin Hillis. I'm here and grateful for the opportunity to speak about LB212, a bill that is critical to ensuring fairness and sustainability and economic growth in Nebraska's premium cigar industry. I think-- first I'd like to thank Senat-- Senator Word-- Wordekemper for bringing the bill as a proposal that will bring about tax fairness to Nebraska and this small-- and this small, distinct type of small business. The premium cigar industry in Nebraska is an essential part of our small business economy. Brick-and-mortar cigar lounge and its tobacconists provide not only jobs but also economic gathering places to enhance local economies. But however, as it is currently structured, Nebraska's tobacco tax policies place an undue burden on local businesses while

allowing those online retailers to sell directly to our residents without contributing their fair share. LB212 addresses these disparities and provides a path towards a more equitable system that benefits Nebraska businesses alike. Regionally, in terms of border states, you've got-- Wyoming has a pending cigar tax cap bill that mirrors LB212. You've got Iowa that has a tax cap. Colorado has a pending tax cap ceiling bill. South Dakota has a higher tax, but they lack the concentration of shops and lounges that exist in Nebraska. Nationally, the point is further dramatized. 15 states, 15, have already enacted a premium cigar tax cap, making it an acceptable approach to tax policy. When married with the remote language, as LB212 is, North Carolina, state of North Carolina-- which is actually my home state, even though they get a little angry with me because I talk about Nebraska so much-- but they anticipate an-- a \$26 million in revenue uplift. So as you're talking about capping at the \$0.50, you also-- you do have to talk about taxing those online retailers. And I'll kind of walk you through as a practitioner how that works in terms of that revenue lever. The Idaho legislation anticipates no negative impact on state receipts. And as the senator mentioned, the Michigan Legislature had a five-year sunset on their tax cap. And they recently made it permanent based on this popularity success with Michigan's small business owners. Minnesota's cigar shops noted increase in tax sales and receipts since enacting the cap. And then I go through-- and again-- and I talk about, you know, some of the other states: Oregon, Ohio, Arkansas. There are pending tax cap bills in New York, New Jersey, Virginia, Illinois. As noted, Wyoming and Cali-- Colorado. So it's a, it's a shop local bill. I mean, that's what it comes down to. It's a shop local bill. And again, I'll talk about the camaraderie and how the math works when you talk about shop local and this tax cap. For-- as for public health, it-- if that comes up, we-- which it probably will, there's, there's nothing that really shows that, you know, this is a challenge from that perspective. Objective third-party studies have definitively concluded that there's no statistically significant level of harm associated with premium, hand-- handmade cigars in terms of inhalation, addiction, or mortality. As the significant, premium cigars have no statistically issues with youth. Price point, you mentioned \$10 to \$15. That makes it prohibitive for, for the youth. And again, this doesn't have anything to do with cigarettes. So let me, let me close by saying I think there are three points I'd like to emphasize. Enforcing online cigar purchases with the current 20% tax rate. Under the current system, online retailers are selling to Nebraska often do not properly collect or remit tobacco tax, creating an unfair pricing advantage

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over Nebraska brick-and-mortar businesses. LB212 ensures that all retailers, both in-state and out-of-state, abide by the sa-- same tax obligations, leveling the playing field. Proper enforcement of the existing 20% tax online cigars would not only generate additional revenue for the state, but also protect the state's local--

von GILLERN: Can I get to the wrap up, please?

ANTHONY GOINS: Yes, sir.

von GILLERN: [INAUDIBLE] question here.

ANTHONY GOINS: Then a \$0.50 cap. And then last is submitting tobacco tax. Instead of having to pay right away, have it to pay at the point of sale once the cigar's sold. I'm done. Thank you very much.

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

JACOBSON: So I'm curious. At your particular store--

ANTHONY GOINS: Yes, sir.

JACOBSON: I, I, I've not been in there. I'm not a smoker and--

ANTHONY GOINS: Yes, sir.

JACOBSON: --but the question really becomes, how many-- do you have-- I gather you have people come in and smoke right there in the store, or do they just [INAUDIBLE]-- are they all just buying cigars to take with them?

ANTHONY GOINS: Well, it's, it's a mixture. You know, we do have customers that come in and-- we say enjoy versus smoke because people smoke cigarettes. But we do have customers that come in and enjoy cigars in the shop. And we do have customers that come in and, and, and do carryout. But we also have customers that come in and bring these online cigars in. Which, of course, impacts the retail and what we-- you know, we say to them [INAUDIBLE] we're going to charge a cutting fee. We never charge a cutting fee.

JACOBSON: So they bring online cigars--

ANTHONY GOINS: They do.

JACOBSON: --they bought into your store?

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ANTHONY GOINS: Yes, sir.

JACOBSON: Wow. That's, that's, that's bold.

ANTHONY GOINS: Very much so. Very much so. Because they've purchased those cigars online and they didn't pay--

JACOBSON: Right.

ANTHONY GOINS: --and they didn't pay any taxes on them.

JACOBSON: Yeah. Wow. You let them use the restroom or--

ANTHONY GOINS: Yes, sir. We do.

JACOBSON: Well.

von GILLERN: [INAUDIBLE].

JACOBSON: Well, I'm-- I, I guess-- I'm kind of back again to-- it seems to me that you have a clientele that comes in and, and buys premium cigars.

ANTHONY GOINS: Yes, sir.

JACOBSON: And, and I'm kind of-- you know, I-- we had heard testimony earlier on a bill where, you know, it's-- when we talk about cutting sales taxes and all the utilities that are charging sales taxes, they, they want it to go away. Well, I don't know why you're not paying it, you know. And, and it's-- and so I'm, I'm back again to, how big of an impact is it really having on your business in terms of the cigars that you're able to sell--

ANTHONY GOINS: Sure.

JACOBSON: --and people come in and enjoy them in your, in your store--

ANTHONY GOINS: Yes, sir.

JACOBSON: --versus-- I mean, I-- I mean, we're talking about \$500,000 a year--

ANTHONY GOINS: Sure.

JACOBSON: --fiscal note.

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ANTHONY GOINS: Sure.

JACOBSON: I mean, that's-- again, in some years, that wouldn't be huge money, but--

ANTHONY GOINS: Sure.

JACOBSON: You know, it's \$500,000. And I--

ANTHONY GOINS: Yes, sir.

JACOBSON: --I guess, even as a banker, I, I, I-- that, that's a big number for me. And--

ANTHONY GOINS: Sure. Sure.

JACOBSON: --and if-- particularly at a time when we have a \$432 million budget shortfall projection. We're not looking to really give up any existing revenue. And so--

ANTHONY GOINS: Understood.

JACOBSON: Part of it comes back to, how much is it really impacting your business?

ANTHONY GOINS: Yeah. It's, it's a fairly significant impact because the online business is a large market in the United States, which is why you've seen other states that have enacted the cap. These online retailers, I mean, I'd say, you know, probably about 50% of the cig-- of cigar purchases in the state in Nebraska come from online retailers. And again, that is folks sending cigars here and they're not, they're not paying any taxes on them. So what, what you would look at is ensuring that they're paying taxes, which is the revenue lever, but giving us a \$0.50 cap, which that \$0.50 cap would allow us to increase the number of cigars sold to just one person, which, of course, there's tax charged on that, which would be another revenue lever for the state.

JACOBSON: Well, what prevents us from imposing the tax on the online retailers?

ANTHONY GOINS: There, there is nothing that prevents us from doing that that I know of. We just don't do it.

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JACOBSON: Which suggests that we need to bring the amendment to make that happen.

ANTHONY GOINS: I-- well. I think so. I mean, if you're selling cigars and they're coming into the state of Nebraska, you-- they should be taxed.

JACOBSON: Thank you.

von GILLERN: Thank you. Other questions from the committee? Seeing none. Mr. Goins, thank you for being here.

ANTHONY GOINS: Thank you.

von GILLERN: Other proponent testimony. Good afternoon.

SEAN KELLEY: Good afternoon, Chairman von Gillern, members of the Revenue Committee. My name is Sean Kelly, S-e-a-n K-e-l-l-e-y. Appearing today in support of LB212 as a registered lobbyist for the Cigar Association of America. Cigar Association represents a cross section of members from all sectors of the industry and includes manufacturers of both handmade premium cigars and machine-made cigars. CAA members manufacture a significant share of premium, large, little, and filtered cigars in the United States. First, we'd like to thank Senator Wordekemper for the introduction of LB212. To the returning members, this concept may seem familiar, as you heard earlier, that this piece of legislation was introduced in prior sessions by Senators Wayne and Brewer. Senator Word-- Wordekemper and Mr. Goins did a great job of outlining what the bill does, so I'll focus more on why this bill hasn't passed yet. And that's-- the primary challenge, as Senator Jacobson alluded to, it's the fiscal note, which why I brought the handout that you're looking at, that estimates this will cost us \$500,000 per year. We'd argue that would actually be a positive fiscal note. I think this data demonstrates, you know, the change in tax revenue the state would see if LB212 became law. So you'll see that it's clear the state's revenue actually increased as a result of the consumers choosing to patronize their local brick-and-mortar businesses, which results in that net gain for the state. With that, I urge you to advance LB212. And I'm happy to try and answer any questions you may have.

von GILLERN: Thank you, Mr. Kelley. Senator Bostar.

BOSTAR: Thank you, Chair. Thank you, sir, for your testimony. What's-- I mean, we've heard a little bit about potential challenges with an

amendment that would bring in taxation of online sales. Do you have any-- I-- I, I'm interested in understanding more about what those challenges are.

SEAN KELLEY: Yeah, I mean, it's, it's more complicated than just slapping the Wayfair provisions on OTP cigar taxes, right? So you, you have to get different manufacturers licensed, regulated. How do you capture the revenue, et cetera.

BOSTAR: I mean, we, we capture revenue from sales taxes coming in from online retailers. Why-- I mean-- I just-- how, how different is it?

SEAN KELLEY: Well, tobacco retailers, we don't. I mean, like, for-- cigarettes are all stamped individually state by state. So I mean, to your point, it can-- it is possible to be, to be done, as we've talked with Senator Wordekemper about.

BOSTAR: But, you know, if someone, if someone sets up shop as a-- you know, they make-- doesn't matter what it is, anything-- and they've got a little-- their operation out of Kansas and they do online sales and they want to sell into Nebraska. I mean, we find a way to capture that tax revenue from them. I mean, that's what I'm trying to understand, is, it-- and this can't be more difficult than what we're already doing. And, and if it is, I'm missing-- I'm, I'm missing why.

SEAN KELLEY: Yeah. I mean, I can share stories with, you know, peer state in Wyoming that is thinking about just eliminating the OTP excise tax because they're-- they find it challenging in, in collecting the online. Just to level the playing field from that perspective. It, it is more difficult than-- and I, I-- it's really a Department of Revenue thing as opposed to, you know, a challenge for the Revenue Committee to come up with language that you know should work and can work. As we see members of this committee do on a frequent basis: this bill's in response to LB X from 2023 to clean up provisions, you know, to make sure that we're doing it correctly. So from our client's perspective, we want to make sure that that would be done correctly so that there's not an instance where we would have some members prohibited from selling online cigars into Nebraska.

BOSTAR: I mean, surely if they just paid the tax they wouldn't be prohibited.

SEAN KELLEY: Right. If it's set up correctly. Sure. Yeah, that's right.

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BOSTAR: I mean, you have-- so if the interest is having set up correctly, which I also would like our tax law to be set up correctly. So I'm in agreement there. Could you, could you help us do that so that, from the industry perspective, there aren't concerns? I mean, I-- you know.

SEAN KELLEY: Yeah. Of course. That's the exact conversation I've had with Senator Wordekemper.

BOSTAR: OK. Because, I mean, it does seem that, you know, Wayfairs would make this totally fine. I just-- I don't, I don't see any-- I don't, I don't see any legal issues. And I, I'm struggling to see the technical issues. But I, I believe you that some other states have-- had experienced them. But, you know, it, it certainly makes sense to-- just out of the, the tax philosophy of the state of Nebraska at this point, which is that online sales get, get captured in taxation, we should be-- you know. We should be up to the challenge.

SEAN KELLEY: I'd say there's not a legal challenge. It's more of a technical and execution of knowledge.

BOSTAR: I appreciate that. And you know what? I am committed to figuring that out.

SEAN KELLEY: As you always are.

BOSTAR: Thank you, sir.

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

KAUTH: Thank you, Chair von Gillern. Can you please tell me what OTP is? I've been trying to figure it out.

SEAN KELLEY: I'm sorry. Other tobacco products.

KAUTH: Thank you.

von GILLERN: I've just got a-- one or two questions. Would it be safe to say-- as Senator Wordekemper mentioned earlier, the, the fiscal note is a static model, what you provided would be a more dynamic model of the impact of what would happen with the change?

SEAN KELLEY: Yeah.

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VON GILLERN: That would-- of course, our fiscal notes are not dynamic, which is a whole nother topic.

SEAN KELLEY: And you're not the Legislative Fiscal Office, which I recognize.

VON GILLERN: And then would it also be safe to say that what Senator Bostar is talking about implementing with the state and working with the Department of Revenue also could be expensive-- could result in a fiscal note?

BOSTAR: [NAUDIBLE].

VON GILLERN: Yeah, I-- no, I get that, but.

SEAN KELLEY: Yeah. Definitely. I don't know how many FTEs that that is, but I-- it's more than zero.

VON GILLERN: You're reading my bubble, so. OK. All right. Thank you.

SEAN KELLEY: Thank you.

VON GILLERN: Appreciate it. Seeing no other questions. Thank you.

SEAN KELLEY: Thank you.

VON GILLERN: Other proponents? Seeing none. Any opponents to LB212? Anyone who'd like to testify in the neutral position? Seeing none. Senator Wordekemper, would you like to close? And as you come up, we had 1 proponent letter, 5 opponent letters, and 0 neutral comments for the record.

WORDEKEMPER: Thank you, Chairman von Gillern and, and members of the committee. I certainly want to make this right. As, as I stated when I talked with a few of you on leveling the playing field, that, that's my goal. However we get there, I'm willing to work with, whether that takes time to do it correctly for the state and for our manufacturers and things like that. The real goal here is to support our local businesses, bring things to Nebraska, and Nebraska has 39 of these, I'll say, cigar shops, and that's known around the country. It, it, it-- we have a lot of nice ones here. It might not seem like a lot, but for, for people that want to go there and just have a, a peaceful evening and enjoy camaraderie, it, it works. And so that's something to be said. And I certainly don't want any of them to close their doors. And so the goal here is to level it somehow, not create a huge

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tax burden within the state. I believe we have enough people involved in this that we can get this done.

von GILLERN: Very good. Any questions from committee? Seeing none. Thank you, Senator Wordekemper. That'll close our hearing on LB212 and close our Revenue hearing for the day. We have no ADA comments on any of the bills today for the record, so. Thank y'all.

WORDEKEMPER: Thank you.