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Tax Policy Reform Commission
January 12, 2007

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The Tax Policy Reform Commission met on January 12, 2007 in Room 1113 of the State Capitol, Lincoln, Nebraska. Members present: Carroll Burling; John Anderson; Richard Baier; Doug Ewald; Deb Fischer; Don Freeman;; Mike Hybl; Matt Jedlicka; Gail Kopplin; LeRoy Louden; Vickie McDonald; Rich Pahls; and Ron Raikes. Members absent: Mike Dafney; Milo Mumgaard; and Arnie Stuthman. Also present: Amanda Johnson; Aaron Hendry; Joseph Young; Robert E. McManus; and George Kilpatrick. []

GEORGE KILPATRICK: (RECORDER MALFUNCTION--SOME TESTIMONY LOST)
...We've done some equalization for cities. We've not really increased aid to counties. I don't know about Highway Trust Fund (laugh). What do you think, Mike? It's increased. I don't know if it's increased in the way that they might have envisioned. []

MIKE HYBL: No, no. It's been pretty much just growth in the revenue streams that flow into the trust, but the structure (inaudible) the same. []

GEORGE KILPATRICK: Exactly. Our recommendation for all: Nebraska should design and implement a major school district consolidation plan. Well, that was tried several times over the years. And while I think it would be fair to say there hasn't been a comprehensive consolidation plan, there has been a lot of consolidation. And we've gone from probably 850 school districts at that time to about 270 right now, much of which was Class I's, but not entirely. So has that been satisfied or not? I don't know. But we counted it as having been achieved or at least been attacked. Shift emphasis towards equalization--I've already talked about that stuff so we'll skip over it--more aid and everything else. Property tax rate limitations--I do want to note this one at least briefly. Nebraska should amend its constitution to eliminate the property tax rate limit faced by county governments, which is 50 cents. What we've done is pretty much exactly the opposite, which is to impose rate limits on everybody else in addition to counties. So that's one that has not been satisfied or been followed up upon. And again, they would have preferred fewer limits on governments and better disclosure, something which we generally speaking have not done. Economic development policy--the Syracuse studies were not necessarily big fans of tax incentives, which was another initiative that was occurring at that time, what we used to call 775. These researchers were not fond of that. They suggested more training money, something which was in the package of a couple of years ago and presumably we counted as having been successful. The final six were focused on financial and tax reporting, improved information to the public. These are attached, well, they're not but they've been adopted. We do do better financial reporting through the Auditor's office and so forth, require more from the State Auditor, part of which has to do with the budget limits that we've imposed since that time. But there is more information available and more information that's available electronically than, of course, would have been true in 1987. So I'm not exactly sure what we were looking for out of this presentation, but that was at

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least a couple of folks' conclusions in looking at the recommendations and then thinking back and going, okay, how is it different now than it was in 1987? Certainly people can disagree about the way, about how or whether or to what extent those have been satisfied. But I do think it's clear to say that what has occurred probably did not occur due to the Syracuse tax study. It occurred due to other factors that sort of forced Nebraska to go along the lines of where other states already were to a certain extent and to sort of match what goes on in the environment. I guess I think that's a fair conclusion. Are there any questions? []

SENATOR BURLING: I have a question, George. Regarding number 17, recommendation 17, I'm having trouble thinking in my mind about a sales tax for counties outside of municipalities. What would be the source? Can you help me with that? []

GEORGE KILPATRICK: Utility payments are subject to so to the extent you've got acreages that are paying electricity bills, water bills, and so forth. []

SENATOR BURLING: All right. []

GEORGE KILPATRICK: Any other purchases by homes outside there that are delivered I suppose would be subject to it. For example, if you had furniture delivered from Nebraska Furniture Mart to your home on an acreage that would be subject to that county sales tax. It wouldn't be subject to a city sales tax. Typically, of course, you buy them in the store and it wouldn't be. But to the extent it's delivered...and the other major thing is construction, particularly in a place like an SID. All your construction materials are subject to sales tax. So if you see a bunch of \$200,000 homes going up, that's probably got \$100,000 worth of lumber, concrete, and so forth that is subject to sales tax. []

SENATOR BURLING: And do you know why they would suggest, particularly in counties without townships? Have you thought about that at all to figure out why they would say that? I don't know what the difference would be. []

GEORGE KILPATRICK: No, I mean townships, as you probably know, are sort of an anachronism anymore, but I don't know why it would be different for counties with townships than otherwise. []

SENATOR BURLING: I don't either. That's why I thought maybe I was missing something. []

GEORGE KILPATRICK: Well, and perhaps I should...perhaps if we would go to the big report and read the detail because there is detail behind one of these. There might be an answer there that I'm just not aware of. []

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SENATOR BURLING: Thank you. []

SENATOR McDonald: Looking at that same recommendation of number 17, it says "or increase state aid to counties, particularly counties without townships," which to me it's immaterial. But haven't we really reduced our state aid to our cities and counties? []

GEORGE KILPATRICK: If you mean on a real basis, perhaps. The largest source of aid to cities and counties is road aid and that has grown as the base has grown. We have not increased what I call the personal property tax relief reimbursement money, the \$17.3 million that was going to cities and counties at that time. MIRF has been invented since that time, which is aid for cities. There is a city equalization formula that is new that's about \$8, \$9, and there is a county, there was, at least a county equalization formula that has not been funded now for four years. So we've done some different things, but the base amount, the 17.3 has not increased (inaudible) were cut. You're exactly right. So how will all of those things mix together? I think you would find there would be more dollars today than there was in 1987. But it wouldn't be more inflation-adjusted dollars. []

SENATOR PAHLS: I just have a question just for clarification. If I live in the city of Omaha and I build a house, I pay sales tax on the lumber. []

GEORGE KILPATRICK: Sure. []

SENATOR PAHLS: If I live in the county outside of Omaha... []

GEORGE KILPATRICK: You would still pay the state sales tax. []

SENATOR PAHLS: State sales tax... []

GEORGE KILPATRICK: There would be no city if it's delivered to your site, which it typically is. []

SENATOR PAHLS: Right. When I lived in an SID, Nebraska Furniture always used to say, hey, we'll deliver it because you don't pay the taxes and blah, blah, blah. So if I build in the city, I'm actually paying more for my half a million dollar house than I am out in Douglas County. []

GEORGE KILPATRICK: Yeah. You're paying more sales tax anyway, yes, to support city government. []

SENATOR PAHLS: Thank you. []

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ROBERT McMANUS: (Exhibit 2) Okay. I would like to now get into something that I think will be a little more interactive. One of the issues you have with evaluating the state's system is the way you talk about comparisons with other states is that different states use different levers to do their taxation. So you find some...Texas does not have a personal income tax but they have very high sales tax and a very high property tax. Wyoming--no personal income tax. They have a lot of natural resource taxes, but they also have a very high sales tax. So it's difficult to really determine how a state fits into the overall picture. And one of the things I've come across which I think is a good way for us to kick off a discussion is a new study that was just published in November. And this is published by the Brookings Institute. I have just received the full study, but I made the copies of some pages because I think it will help us look at Nebraska and how they compare to other states. What's done differently in this study than others that I've seen is that in this study they made an attempt to identify what is the average tax of each kind that's imposed by the states across the country. In other words, what's the average personal income tax, at what rate? What's the average corporate income tax, at what rate? What's the average sales tax? What's the average property tax burden? And then they establish a national average that on average, the average state has this. And then they look at each state and show what kind of fiscal horsepower is each state using on each of those taxes because on what they show is that some states will be way high in one area but way low in another. And so if you turn to on this handout to the third page you have Nebraska. I'll kind of walk through what they show and then behind that I've shown what other states that are adjacent to Nebraska have and then I've shown a couple really aberrational states like California after Proposition 13 and some states like...in the South. But I'll walk through Nebraska. If you look at the top chart, the yellow bar indicates the amount per capita that the average state would generate from each type of tax. So general sales tax, the average state is \$774 per head. And you go right across with each tax. The blue is this study's estimate of what each state could generate if they applied exactly the national...this average law. In other words, if Nebraska were now to apply the same laws, it shows what in the blue what Nebraska would generate. And the reason there's a difference between what the average state does and what Nebraska does is because there's differences in population, there's differences in income, there's differences in property values. And so they try to take all of that into account. So what you see is that in general Nebraska would generate a little less than the average if they were to apply these uniform tax laws. And then the orange bar shows what does Nebraska really do because they don't apply this average tax law. And it shows that in general...it shows that it's a mixed bag. That sales tax, general sales tax is higher than the average law would generate. Property taxes are higher. Personal income tax is higher. Corporate income taxes are lower. This study not only includes taxes, but it also includes other revenue items. It looks at things like lottery revenues. And then it looks also at the very end at user charges which is something that...so the yellow bar in user charges is what...in the average state, what are the citizens paying where they pay for the service? And if Nebraska did the same thing, the blue shows that Nebraska would collect slightly less. But the orange bar shows that in

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user charges Nebraska is actually lower than the average state. []

SENATOR BURLING: So you're talking about fees type of things. []

ROBERT McMANUS: Fees, uh-huh. The...let me go up to the headings for a minute. The headings on this where they do the rankings are very, very confusing in this study because in some cases it's good to be ranked high and in some cases it's good to be ranked low. So it's not really intuitive to me. But what they call the fiscal capacity index, it's the ratio of the revenue capacity, which is the blue line, to... []

JOHN ANDERSON: Expenditure needs. []

ROBERT McMANUS: Yeah, to expenditure needs from the bottom. And so turn to the bottom part, instead of looking now at the revenue side, they're looking at the expenditure side. And what this study tries to do once again is the yellow line is the average expenditures that a state would need when they look at all 50 states per capita. They adjust those then to reflect the actual conditions in each state--geographical differences, population differences, socioeconomic differences. Things like if there's an aged population, they make adjustments for Medicare, payments coming in from the federal side. If there's a high poverty level in the state, they increase both the amount you'd have for public welfare, but they also increase the amount that you'd spend on education because of special needs programs and things. So they do an analysis which may or may not be good. But what they do is they try to look at each state and adjust what its revenue needs would be. And what the index shows is that if you were to take a look at Nebraska's revenue needs, which are in the blue, and compare those to the Nebraska blue line above, which is the revenue sources, that the index is one on one, which basically means that Nebraska, if they used the standard tax system, that Nebraska would basically cover its, what they would view its revenue needs. As we get into other states, you can see other states are way, way distorted on that. But what it also shows on the revenue side is that where the orange is, is where Nebraska is not using what the study would consider to be the equivalent services of an average state, was in fact using more or less in various categories. In basic education, the study would say Nebraska spends more in higher education; public welfare. In health and hospitals, they'd say Nebraska spends less. A lot of information in this study to dig into. But...and I guess I might stop right here and see if anybody has any questions before we move to other states. []

RICHARD BAIER: Bob, have you looked at irregularities? I'm looking at the estate tax piece, for example. There's only 13 states in the country that have that estate tax, up on the top. They show us in terms of collections as being less than the United States (inaudible) per capita. I'm curious about why our ranking was so low. []

ROBERT McMANUS: I don't know. It could be that our population is poorer. []

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GEORGE KILPATRICK: You don't know what the year of it? []

ROBERT McMANUS: This is 2002. []

GEORGE KILPATRICK: So a number of them had it in 2002, probably the vast majority.
[]

RICHARD BAIER: That's true. There's been an onslaught of people get rid of it since then. It's true. []

ROBERT McMANUS: And the study does go through in detail what (inaudible) for each of these. []

RICHARD BAIER: Senator Pahls. []

SENATOR PAHLS: Yes, I just have a question to make sure I understand. I'm looking at the top graph. If I were just taking a fast look at it and say without knowing anything, I'd say, well, it looks like corporate and estate taxes we really don't tax them into that, if you're going to tax. Would that be correct? []

ROBERT McMANUS: The way that's stated, Senator, is that we tax those less than the average state and we tax other things more. []

SENATOR PAHLS: Right. Okay, then it looks like, okay, property tax are a little higher. I mean that's how I just take a rough look and say, oh jeez, these people that we're talking about cutting estate taxes, this would bring that into question. You know, I mean to me it makes...I go to the bottom and you are saying that we are spending more on basic education than possibly we should be if you look at... []

ROBERT McMANUS: Yeah, I think the bottom chart is more difficult to make a judgment on because what they're saying is that if we were to be spending on what the average state was spending, adjusted for our nuances, that we're spending more. []

SENATOR PAHLS: Okay. So if I look at higher education, I would tell J.B. that he has to retract some of those, there's a little humor in this now because of some of the comments he was making today. I'm just making sure I understand how to read these. []

ROBERT McMANUS: Okay. We'll come back to Nebraska, but the next group of pages are neighbor states. And I find South Dakota is kind of interesting because they're really doing pretty good. They don't...I'm looking at the revenue side, they don't have a personal income tax. Look at that (inaudible) that's big blue bar and nothing there. But by and large, their...this is worthy of study. I want to dig into this because they seem to

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be able to generate all the revenues they need or that the average, that better than the average state and yet they don't have the personal income tax. Once again what you'll find as you're looking through this and studying this, the yellow lines never change from chart to chart. The yellow lines are always going to be identical. The blue line will change because they...what they're able to generate...and so this, just for example, what the blue line shows on the first chart is that if Nebraska applies the standard laws, they generate \$723 in sales tax. If South Dakota did it, they'd generate \$775. So they generate slightly more probably because there's a higher income. We need to plow into this. []

RICHARD BAIER: Tourism. []

ROBERT McMANUS: Tourism. But as you go, you know, later charts, Iowa would only do 725. Kansas would only do 671. So...but maybe it should move from South Dakota just to look at Iowa. They're pulling all of the levers. They're utilizing every tax. They have very high user charges. Their lottery revenues...I guess lottery is not the same as casinos, so I'm not sure casinos is in here. []

MIKE HYBL: Bob, where would casino revenues fall under? Is that a miscellaneous revenue or another tax? []

ROBERT McMANUS: That would be miscellaneous revenue, yeah, that'd be miscellaneous revenue. []

DOUG EWALD: Excuse me, wouldn't that also fall under corporate income tax? []

ROBERT McMANUS: I'll need to look at that. What you see once again in Iowa is the corporate income tax is very low, and I suspect it is because of the one factor sales formula that both...well, now that bears looking at. That both Nebraska and Iowa have a very low relative corporate income tax. []

RICHARD BAIER: Collections. []

ROBERT McMANUS: Collections. []

RICHARD BAIER: That's a lack of seed (inaudible) compare to other states. It would be a lack of seed corps compared to other states may indicate that more than anything else. []

DOUG EWALD: Well, what I saw when I got here from looking at the corporate income tax is that all the states are less than \$100 million other than California really. And California has a very high corporate income tax rate. []

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ROBERT McMANUS: Right. And if you turn to California, this, to me this shows what happens when you really start playing with your system. Because in 1977, they enacted Proposition 13 which put a ceiling on property taxes. And so that property tax is well below the national average and it's also well below what they could generate if they had the average property tax laws. But their other taxes are all quite high. And they go really heavy in user charges. Other nuance of California is it's (inaudible) a lot of oil and gas is produced in California, but they don't have severance tax which is surprising. The next one I put in because Senator Pahls the other day asked me about Arkansas. And the question was someone had said, I could move to Arkansas and save \$4,000 a year property tax. And if you look at Arkansas, that person is right. (Laugh) []

SENATOR PAHLS: Can't argue, right? []

ROBERT McMANUS: Can't argue. But what you see here is a state in dire trouble. It ranks third...at the bottom, it ranks third in expenditure need. Per person it needs to spend the third highest of all of the states. And it ranks dead last in expenditure (inaudible). And so what you're seeing and when you look at the bottom is that they do have a pretty good tax structure...their sales tax is high, but the rest of their taxes are pretty good. But they're not meeting the services that most states would meet. So I don't know. This is a different way to look at it, that...and when looked at this way, Nebraska seems to be really in the middle of the pack in a lot of ways. It is (inaudible) every lever and none of the levers seem really out of skew. Corporate income tax looks low. And when you look at revenue needs, at least from the state's perspective, it's taxing capacity is able to cover its revenue needs. So it looks to be a very average state. There are some states who have taxing capacity that exceeds their revenue needs, and there are others and the bottom state in this study is Mississippi, which has the highest revenue needs per capita because of poverty and the age in that population and a number of factors, but they have virtually no revenue capacity. So it would be very difficult to be a legislator in Mississippi I think. []

RICHARD BAIER: Were there any more questions? []

SENATOR PAHLS: One more because I'm trying to see how I could utilize this. If I look at the basic education, we're saying we need more money for education. But this indicates that we actually are spending above our needs right now. []

ROBERT McMANUS: If what it would say is that if...that the average state would be spending less with the same needs. []

SENATOR BURLING: Is that because of demographics, sparse population? []

ROBERT McMANUS: Well, to walk through it again, Senator, let's look at education where it says basic education, the national yellow line, \$1,427. They then say if you

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modify Nebraska to take into account its population, its demographics, its levels of poverty as compared to the average that Nebraska would only need to spend \$1,238 per person. And that then the orange line is that, in fact, Nebraska spends \$1,436 per person. So I would say what that means is that Nebraska is clearly spending more in education than the average of the other states, at least recognizing that the authors of the study are making the adjustments to ratchet down and up what each state would need to spend. []

JOHN ANDERSON: If you look at their expenditure need definition, it gives you some insight. It says it's a measure of the cost of providing public services at an average level, given the state's characteristics. So there are really two things going on there. One is what's the cost of providing public services in your state? We may differ from the cost elsewhere. We may have lower labor costs in providing local public education than they do in New York or California or elsewhere, for example. But on the other hand, our characteristics may be different. And here, Senator Burling, that factor may come in. We may have longer transportation requirements and that sort of thing. So it's really there are forces going in both directions here. On the one side there are cost factors. On the other side there are state characteristics that may give us higher costs. And then, of course, the unstated part is that our actual expenditures reflect a local state taste for public services that isn't taken into account in the uniform level that's estimated in the blue bars. We may have a preference for better schools or worse schools, you know, take your pick. So there are a lot of things going on as you look at these bars that you've got to sort of try to think about how you might sort them out. It's really quite a complex set of issues that lag behind each one of these bars. In terms of how to interpret the rankings, I mean it's easy on the fiscal capacity rankings for Nebraska. I see the rankings of 24, 25, that means we're right in the middle. On the RES rank, this is the relevant expenditure system rank, would you help me interpret that. We rank 36th. []

ROBERT McMANUS: Yes, 36 is good. []

JOHN ANDERSON: Where 1 is the bottom and 50 is the high, right? []

ROBERT McMANUS: Yes. Right. But here you want to be ranked high. This is the...what it's saying is that the index of 94 versus the average of 100 that the average spending need adjusted for population and everything is 94 percent of the national... []

JOHN ANDERSON: Yeah, if the mean or the median were 100 as an index we're below that. []

SENATOR RAIKES: But number 1 would be the highest spending need, not the lowest spending need. []

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ROBERT McMANUS: Right. Number 1 is Mississippi. []

SENATOR RAIKES: And number 3 is Arkansas. One other way to look at this would be that we have a little bit more revenue capacity than spending need compared to other states. And given that's the case, we tend to spend relatively more on public education and public welfare and relatively less on everything else. []

GEORGE KILPATRICK: Higher ed. []

SENATOR RAIKES: Yeah, public education including higher ed, yeah. []

RICHARD BAIER: If you add those two together, Senator, they're pretty significant, those first two. []

ROBERT McMANUS: Okay, well, I will...I'm going to be studying the study and also looking for other information out there. The thing I feel I need to do at the beginning is to be gathering data and finding out what's out there. That kind of moves us to the agenda. I'd like to get a sense of what it is that the commission would like to see gathered. I feel like this type of information that there's a lot of studies out there. I like this one because it tended to put everything on an even place. But I'll continue to look for data that's out there. But I'd be interested in learning what the commission would like to see. I felt that a presentation on the fundamentals of each tax and particularly at least the history of how we got to where we got to. Why does the income tax have the one factor sales formula when some of the other states use a different method? And if that would be useful and kind of the history may help us learn what we can do and what we can't do going forward. But those would probably be better done at the subcommittee level where the...I open that up for suggestions whether the full committee would like a presentation on all that. []

JOHN ANDERSON: Speaking for the income tax subcommittee, that was our thought of how to proceed was to actually get some briefings on the fundamentals of the personal and corporate income taxes and begin to understand what's in the tax bases in both cases and how the Nebraska tax is configured relative to other state examples of personal and corporate income tax and to begin there with an understanding of the tax bases and proceed to later discussion of other features, including exemptions and deductions and credits and looking at rate structures. So that was sort of the plan that we had laid out. And we were going to begin with some briefings on exactly what's in the two tax bases and how we've gotten to this point. So it seems to me that's an appropriate way for that subcommittee to begin and perhaps others as well. []

SENATOR BURLING: Well, Mr. McManus, I told you kind of what I thought, but I can repeat it in front of the full commission. Mr. McManus has just started and so this is his first meeting and kind of feeling his way and getting acquainted with you folks and what

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you want. I can see value in having presentations by some people to the full commission. But as you have said, I think the meat of the work gets done is subcommittees and we'll rely heavily, I think, as we proceed in the future on subcommittee reports. And, of course, as you get acquainted with this and as you meet with the subcommittees, you'll be more able to coordinate all of that and bring it to us as a full commission. But that's kind of how I see this thing going. And so other comments around the table about, yes, Don. []

DON FREEMAN: It seems to me that our basic goal would be to make our tax structures attractive for economic growth and population growth, economic growth and still maintain services that our citizens are used to. And to me it's rather confusing and very complex right now. We have cuts recommended by the Governor in savings and we have bills introduced that are going to raise taxes or revenue requirements someplace. And so it seems that we need to eventually develop an overall plan that will make Nebraska attractive for expansion. And I don't know how that's going to work out. I know it's going to penalize the citizens of Nebraska or how we're going to do that. But to me, that's the ultimate goal I think we should take a look at. []

ROBERT McMANUS: (Exhibits 3 and 4) And that leads into my next two items that I have in your folder. When we start looking at (inaudible) the Nebraska system and other systems, it's important I think to have an idea of what the criteria is going to be by which we are going to judge the tax system. And I've done a little looking at what various groups think constitutes sound tax policy, and it depends on the nature of the group, what they think (inaudible). But I did pull up two statements of tax policy that seem to me to be in the direction where we want to head. The first one is from National Conference of State Legislatures and the second is from the Tax Foundation. And they're not really entirely consistent. I'd say about 90 percent of it is consistent, but there are areas where they deviate. They don't...I'll start with the National Conference of State Legislatures. It comprises elements that are complementary, including the finances of both state and local governments, of which state and local work together. A high-quality revenue system produces revenue in a reliable manner. Reliable taxes are often those which are the least progressive that...the property tax is the more reliable tax you have because it's going to be there every year. And the income tax is the least reliable because it could go up or down. So when these principles can't stand on their own, they have to be taken into account with all the other principles that there's a give and take in the principles. A high-quality system relies on a balanced variety of revenue sources. And clearly in Nebraska we start out with that. My experience in other states has been that where a state does not have a particular tax such as an income tax in Texas or a personal or sales tax or any kind of a tax in Alaska, you don't have that. It's impossible to get it. That enacting an income tax for the first time is extremely difficult. And from my perspective, be thankful that it's in place because you can tweak it up or down, but having it in place is pretty important. And Nebraska does have in place all the taxes. A high-quality revenue system treats individuals equitably. And by that they mean it

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imposes similar tax burdens on people in similar circumstances. It minimizes regressivity and minimizes taxes on low-income individuals. It facilitates taxpayer compliance, and this is inherent in every group of principles that I've seen is that from a taxpayer's perspective taxpayers want to know that with a reasonable degree of certainty that they are paying the tax that they owe and that the law is clear enough that they can see what that tax is and that voluntary compliance is in general what taxpayers want to do. Number 6, it promotes a fair, efficient, and effective administration, as simple as possible to administer, raises revenue efficiently. Not all taxes are simple to administer, but once again, the easiest tax to administer would be a simple head tax of \$1,000 per person, but it's not the fairest tax and so once again there's trade-offs in simplicity with other factors. Number 7, is responsive to interstate and international economic competition. One of the things that strikes me as I start looking at Nebraska is how important Iowa is and what Iowa does because of the location of Omaha, which I'm sure is not news to anybody but me. But it was an insight to me to see that (inaudible) and where our population is. And on almost every tax, whatever, if it's a motor fuel tax, whatever is done in Iowa is going to affect revenues from Nebraska and vice versa, the income tax, the sales tax. And so many states wouldn't face this issue to the degree that Nebraska has to (inaudible) of looking at what the neighbors are doing. Is that an accurate assessment? []

_____ : Um-hum. []

ROBERT McMANUS: Number 8 is high-quality revenue system minimizes involvement in spending decisions and makes any such involvement explicit. I interpret that to mean that at least this National Conference of State Legislatures does not like dedicated fronts. But I'm not sure that that's going to be a principle that is necessarily going to be agreed to here. And number 9, high-quality revenue system is accountable to taxpayers. And I find that in every group of principles that I've seen. The Tax Foundation's, I'm just going to hit a couple of them, some of them are quite different. The transparency is a must. They agree with...I think that one is in total agreement with the National Conference. Number 2, be neutral. The Tax Foundation would say that one should not give tax incentives to promote economic development. And it's not necessarily a principle that I think everyone would agree with. And certainly in the corporate world I have no companies who absolutely agree with that and don't want any incentives nor impediments. They want just this level playing field. But I also know other companies who really want incentives to get economic development going. So number 2, be neutral, is controversial. Maintain a broad tax base. Number 7 is interesting, it's keep tax burdens low, so it's kind of a difference of perspective, the two organizations. Tax Foundation is a nonprofit tax organization, but it clearly has a taxpayer view to it whereas the National Conference I think has got more of a governmental view to it. []

SENATOR RAIKES: I didn't quite hear your comments on 8 on the NCSL list. Does that mean you shouldn't have a gas tax? I mean that's a tax that's clearly tied to a spending

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decision. []

ROBERT McMANUS: Well, I think what they'd say is that if you read that statement they say where you do it they can explicit...that if you do have a tax that's tied to roads that it's explicitly low. But that does seem to be a bias within this to not have dedicated taxes. []

JOHN ANDERSON: I think it's also got to do with the issue of tax expenditures. If you want to spend \$100 million on housing, you can do it explicitly through an appropriation or you can do it implicitly through a \$100 million reduction in taxes on housing somehow. And they're saying if you're going to use the tax system to spend money, then in the first place they don't recommend it. And in the second place, if you do it, make it explicit. (Inaudible) using a tax system for expenditure purposes I think is what they have in mind. []

RICHARD BAIER: Senator Raikes, if you look back, there is also a bit of an explanation in terms of review of those kinds of specific earmark sources of revenue. I think you're looking at a paragraph that basically says that we support the appropriation process (inaudible) more frequently and more openly than maybe an earmarked source of revenue. That's what I kind of get out of the second paragraph. It comes from your counterparts in the legislative Conference so I'm not sure I've been close to that. []

GEORGE KILPATRICK: No, that's an accurate statement. []

SENATOR McDONALD: And I think what it's also saying is many times they will be earmarked for a project left on the book, they don't come off the book, and they'll continue to flow money into that particular project when they don't need it. So they need to be reviewed more often to make sure that those are not earmarked for certain projects where the money is not needed anymore. Or they tend to stay there and be used for other things without public knowledge. []

RICHARD BAIER: Would it be helpful to this group to settle on some general principles?
[]

SENATOR BURLING: Are we ready? []

RICHARD BAIER: I don't know. Or at least have some of that discussion. It may help in your subcommittee discussions. []

SENATOR BURLING: I think this is a very good document for education and information. And probably most of us haven't had a chance to really study it yet. But I'd certainly recommend to get into it and study it. And we've got subcommittees that haven't met since Mr. McManus has been here so they're probably not ready for that.

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But if anybody wants to comment, I'd sure welcome it. []

ROBERT McMANUS: It's something we can revisit as we start to finally decide on what action we take, but we'll see how we measure up. And so what I'm thinking, what I'm trying to garner in this group of (inaudible) what I should be doing in the next month or two months in terms of getting information for presentation to you. And I'm starting to look at surveys of what's done in other states and why and then these national type studies. And I'll bring those to you that seem meaningful. There are experts out there who, in particular taxes, that tend to be with universities. And I'm going to make an attempt to identify who is premier in the fields of what their writings are and look at that. I also think it's important, and this may be the subcommittee level, with the help of the Department of Revenue identify the major tax issues that taxpayers are having with each type of tax. And make sure that we know those as we're going forward so the course...there may be things we can address quite easily that would promote both taxpayer compliance and tax simplicity of the system. And so I think I'll work with the commissioner to see if we can identify taxpayer groups in some taxes, such as motor fuel taxes, there really is a very limited number of taxpayers and in others, of course, personal income tax you'd have the whole state. But to the extent that there are specific taxes that we can get taxpayer issues on the table, that would be pretty important. []

DOUG EWALD: We can do that, you bet. []

ROBERT McMANUS: So that's what I'm thinking I'm going to be gathering for presentation to the committee viewing that the first couple meetings that we have more of providing you with data than later meetings when there is decision making being done. But are there other things that you want me to be doing? []

SENATOR BURLING: I think as we consider information we received today from George and what you handed out then we'll start to form our own thinking on what Richard brought up, you know, general feeling about tax policy and hear from the other two subcommittees more thoroughly next time. Then I think we'll probably feel more confident to enter in discussion as we receive more information. And so I would say before our next meeting you meet with subcommittees, contact...get acquainted with people in the community and contact people to come and make presentations to the commission regarding specific tax topics. Anybody else have comments? Yes. []

MATT JEDLICKA: I wanted, excuse me, I lost my voice lately, something Don brought up, but that is making the state attractive for development. And, Richard, I heard you give a presentation once or twice that mostly talks about our tax incentive programs and what they do to get us in line with other states around us. And I would assume this is something you would know about is what's scaring businesses away from our state? I guess maybe if we want to know what's going to increase economic development, let's ask our biggest critics. So I don't know if that's some information you would have. []

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RICHARD BAIER: Yeah. There's lots of site selection studies put out that track...and again, they're a bit like the tax studies--they're all over the place. You know, we had Forbes Magazine came out and ranked us 7th best place in the country to do business. A week later, we had a national publication that put us at 44th using almost the same factors. So it's a little bit like the tax (inaudible). It depends on who you ask and which day you ask. But there are clearly some issues in terms as we began to look at what kinds of businesses make sense in Nebraska. And that's part of maybe what I can do is send out...but we'll send you kind of a list of the businesses that we're seeing in terms of business and industry and also the entrepreneurship fees, what's hampering the small startups out there because one of the areas that you'll see is that our start-up numbers are not nearly as strong as most of the other states in terms of new business startup. I'll also tell you our business closings are considerably less than most other states so the net is probably about the same. But when I get back, I'll send out the CFED report which was just released this morning which is kind of a broad mix of a whole variety of factors about states and their development capacity. And I'll ship that to you the middle of the day so you can get a look at that. In terms of looking at industries that are more high tech and you begin to look at things like sales tax on customized software. It's a big price tag issue, but companies that are really driving, and what's driving most of our business today is software. And we're one of the states that taxes software. It's kind of a rarity among most of the states around us. You begin to look at R&D tax credits or sales taxes on R&D equipment. Again, what kind of equipment do we want? What kind of investment do we want in this state? The reason I ask about the principle piece, one of the things I think we need to do, and it really reflects what Don said about doing things that encourage population and work force development, but they also encourage capital investment because that capital investment is what's going to keep the businesses coming. And so there's definitely a few clear issues out there that are a real problem for us right now. If somebody came to us right now and said we wanted to do a Google backup facility in Nebraska, going across the river it's probably \$20 million higher than it is going across the river because of sales tax and a few other things in terms of software. We need to think about those kinds of industries. []

SENATOR BURLING: Ron. []

SENATOR RAIKES: And this may not be a relevant topic for the group, but we now with bill introduction, we've got a number of concepts that show up in various bills. I can think of sales tax TIF, I have heard about an occupation tax TIF. We've got rebates for property tax of various sorts. We've got some crazy idea about an income tax cut, you know, lots of...you know, I wonder if this group wants to at some point include on its agenda some sort of an analysis of those kinds of prospects, both in terms of economic development, which I'm not quite there with you, but I'm trying. []

RICHARD BAIER: I know you're not. That's okay. []

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SENATOR RAIKES: As well as other aspects, in addition to some of the basics. For example, on the, you know, I have to think that the gas tax and dedicated sales tax on autos has worked pretty well for Nebraska. That's earmarking. I'm not a big fan of throwbacks, however. So there are several of those kinds of actually current topical issues that we're going to have to deal with in the near future. []

SENATOR BURLING: Anybody else? []

ROBERT McMANUS: Okay, Senator, I turn it back to you. []

SENATOR BURLING: Okay, thank you. Well, it's been a good discussion I believe. Like I said, as far as information is concerned, it gives us some places to start informing ourselves and trying to collect our own thoughts. And I just urge all of you to study the information, contact Richard or I or Bob any time you have suggestions on what you'd like to see done. Anyone you'd like to see make a presentation, contact your subcommittee chairs, then work through them. And I think we can become prepared to make some of these decisions we need to make when the time comes. And so I appreciate your attendance today and your interest in where we go from here. I neglected at the start of the meeting to introduce Doug Ewald, our new tax commissioner, who has joined us since the last time we met. So, Doug, I want to give you an opportunity if you want to say anything to the group. I don't know if you've met us all or not, but welcome to your new responsibility and to the commission. And I don't want to put you on the spot, but if you have anything you'd like to say, why... []

DOUG EWALD: Well, thank you, Senator. I've met most everybody here. Those that I haven't, I will I know. And I look forward to working with everyone. I come out of the private sector obviously, 17 years at Union Pacific, and probably have a better feel on corporate taxation than any others. But really would like to address maybe within the subcommittees or as a broader picture maybe do we get rid of all taxes and go to something completely different? You know, I don't want to stop at, you know, I'm on the sales tax or gross receipts subcommittee, I don't want to stop there. I'd like to roll something out bigger at some point in time anyway. So I look forward to working with everyone. []

SENATOR BURLING: Okay. Thank you very much. Is there anyone that would like to make public comment? I can only see one visitor. Would you like to make public comment or, okay. []

RICHARD BAIER: He's with me. He's my economist on staff. []

SENATOR BURLING: Well, but he's not around the table so... []

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_____: He's the mouthpiece. []

SENATOR BURLING: Not seeing anyone who wants to make public comment, we'll move on. We should set the date for our next meeting. I don't know how many of you...do you all have a calendar in your packet? At our last meeting we suggested we'd probably meet every other month this winter and spring. And unless we want to change that, our next meeting would probably be either Friday, March 16 or Friday, March 23. And if it makes any difference to you, the 23rd is part of a four-day recess for the senators. Now I don't know if you want to decide today or if you want to go home and look at your calendars and e-mail us on which date you'd prefer. We did that once before and we went with the date that most people wanted. So I don't know if you're prepared to decide that today. If you are, let's have some comment, maybe dates when you know you couldn't be here or we can, like I say, we can wait and have you send in your request by e-mail or however. []

SENATOR McDONALD: I don't know about others, but I don't have my calendar with me so I think the other process went well so that way we can put in our date that would work best for us. []

SENATOR BURLING: Yeah, we did that one other time. We asked you to let us know which...we picked two dates and asked you to let us know which dates worked best for you and then we notified everyone. Do you want to do it that way again? Okay, we'll do it that way again. Any other comments anyone has? []

DON FREEMAN: Do we have an e-mail and phone number for Bob? []

ROBERT McMANUS: It's...let me just...the e-mail is Robertemcmanus@aol.com And then, and actually I'm getting a phone number. I'm going to be over in the State Office Building. Let me send...I'll send the full committee that information. []

RICHARD BAIER: He's going to camp in our office for the next year. []

SENATOR PAHLS: You'll corrupt him. []

RICHARD BAIER: I might if I can. []

SENATOR BURLING: Any other comments, questions? We will look forward to finding out about other subcommittee meetings and thank you very much. As I said, get ahold of us any time you have something that you want to talk to us about. If there's no other comments, I'll entertain a motion to adjourn. []

MIKE HYBL: So moved. []

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SENATOR BURLING: Motion has been made by Mike. Second by... []

MATT JEDLICKA: Second. []

SENATOR BURLING: Second by Matt. Discussion? All in favor say aye. Motion is carried. We are adjourned. Thank you. []