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Revenue Committee
January 27, 2011

[LB96 LB106]

The Committee on Revenue met at 1:30 p.m. on Thursday, January 27, 2011, in Room 1524 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LB96 and LB106. Senators present: Abbie Cornett, Chairperson; Dennis Utter, Vice Chairperson; Greg Adams; Deb Fischer; Galen Hadley; LeRoy Louden; Dave Pankonin; and Pete Pirsch. Senators absent: None.

SENATOR CORNETT: Good afternoon and welcome to the Revenue Committee. I am Senator Abbie Cornett from Bellevue. To my left is Vice Chair Senator Dennis Utter from Hastings. To his left is Senator Deb Fischer from Valentine. Senator Greg Adams from York will be joining us; he's opening on another bill. To my far right is Senator Pankonin from Louisville. Senator Pete Pirsch from Omaha. Senator LeRoy Louden will be joining us, from Ellsworth. Senator Hadley from Kearney. My research analyst today is Bill Lock, on my left. Committee clerk is Matt Rathje. The pages are Marilyn Buresh and Amara Meyer. Before we begin the hearing, I, please, ask you to turn your cell phones to either "off" or "silent" while in the hearing room. The sign-in sheets for testifiers are on the tables by both doors and need to be completed by everyone wishing to testify. If you are testifying on more than one bill, a sheet needs to be completed for each bill. Please print and complete the form prior to coming up to testify. When you come up to testify, please hand your testifier sheet to the committee clerk. There are clipboards also by the back doors if you do not wish to testify but wish to indicate your support, opposition, or neutral position on a bill. These sheets will be included in the official record. We will follow the agenda posted on the door today. The introducer or a representative will present the bill, followed by proponents, opponents, and neutral. Only the introducer will have the opportunity for closing remarks. As you begin your testimony, please state your name and spell it for the record. If you have handouts, please bring ten copies and hand them to committee and staff. If you only have the original, we will make copies for you. Please give the handouts to the pages to circulate to the committee. With that, we will open the committee hearing on LB96. [LB96]

SENATOR UTTER: Senator Cornett, you're free to open on LB96. [LB96]

SENATOR CORNETT: Thank you, Senator Utter and members of the Revenue Committee. My name is Senator Abbie Cornett, C-o-r-n-e-t-t. I represent the 45th Legislative District, which is Bellevue, Nebraska. Before I go into what this bill does, I'm going to give some of the members of the committee that were not here in the past a little bit of historical background. Years ago, the state agreed to pay--it's quite all right--pay--repay the counties what was called jail reimbursement. That fund was never fully funded, and it became a source of contention and unfairness, because the counties that housed prisoners at the beginning of the year would receive money, but when those funds ran out, the counties that would have to house a prisoner at the end of the year received no money for that housing. Once the money was gone, it was gone. It

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was inherently weighted towards the areas with larger prisoner populations: Lincoln, Omaha, Sarpy County. Other counties did receive this, but there were a lot of counties that just completely lost out on funds. For my first three years here--three? Three or four. Three. Every year I beat my head against the wall to fully fund jail reimbursement. And it dawned on me that while we should be funding the counties, maybe this wasn't the way to do it at the time, because there were counties that housed prisoners, counties that didn't house prisoners, and it was money that wasn't necessarily being distributed equally. With the help of my committee staff, we took a different approach and looked at funding counties based on growth. We enacted a bill that had two parts, one that eliminated jail reimbursement and the other part that established a county aid formula that was based on a growth factor with a minimum base that each county could be funded at that the...because the continual argument from the counties were: We were always promised this money under jail reimbursement, and we never got it. So we set a floor in there that the Appropriations Committee had to minimally fund--with that floor. What LB96 does is remove that floor. When I enacted that bill, I did not foresee the economic times the state is facing. What LB96 does, very simply--allows the reduction of county aid to zero budgeted dollars. Under current law, a minimum aid amount to be provided is approximately \$11.5 million. As amended, the Appropriations Committee could determine the amount of aid funding to be an amount of zero dollars up to approximately \$23 million, which was the ceiling on the aid formula, the floor being \$11.5 million. Over the course of the interim we have had quite a few discussions. And as the bills that we heard yesterday would completely--which I've also introduced--which would completely eliminate city, county, and NRD aid...we have to rethink how we do government, and that's what the bill was yesterday. This bill was a bill that we had drafted ahead of time, before I introduced the bill to completely eliminate aid. This gives the Appropriations Committee the leeway to fund, in years that they feel they can, aid to counties. It will be up to this committee to decide which approach, in--when we--in the course of our discussions this year, we want to take, whether we completely--take the stance of completely eliminating aid to cities, counties, and NRDs or if we zero them out and allow the Appropriations Committee to appropriate when we have money. But that does not allow for a stable funding source for the counties. It would probably be preferable in the end to eliminate rather than not tell them how much they're getting from year to year. With that, I will waive closing on the bill, Senator Utter. Questions? [LB96]

SENATOR UTTER: Thank you, Senator Cornett. Are there questions for Senator Cornett? Seeing none, we will proceed for the first proponent of LB96. Are there any proponents of LB96? Seeing none, we will now hear from opponents. Welcome to Revenue. [LB96]

PAMELA LANCASTER: Thank you. My name is Pamela Lancaster, P-a-m-e-l-a Lancaster, L-a-n-c-a-s-t-e-r. Good afternoon and thank you for the opportunity to speak to you. I'm a Hall County supervisor and immediate past president of NACO, the

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Nebraska Association of County Officials. I oppose this bill for numerous reasons, and I'm hoping I can relate to you in the allotted time some of the reasons why. Over the years I've been a county supervisor, which is 14, I've watched our resources dwindle to the point that we could hardly do business for the people. I understand that the state has fiscal cutbacks; I understand that, because of lost revenue. I also understand that it seems that the federal government would rather balance their budget on your backs. But for you to do the same to us is difficult. We have no place to go but property tax. Recently I did a radio show, and unbeknownst to me the commentator played the Governor's comments regarding budget shortfalls, which went something like--and I don't have it exactly verbatim, but: Before local government criticizes us, they should try to do what the state is doing--reduce their staff, have unpaid furloughs, freeze pay, etcetera. I realize that local governments include more than counties. And I'm trying very hard to not to take this personally, but I can tell you from our perspective--basically Hall County, because that's my home county and that's the one I would know the most about--we've already done these things. The ideas that the state is beginning at this point we've done for years, and I know that many other counties have done similarly. For the last ten years, we have asked our elected and appointed officials and department heads not to increase their operating budget. In fact, just before I came this afternoon I was talking to our veterans service officer, and he told me that he has increased his operating budget--now that does not include salaries--his operating budget less than \$700 in the 24 years that he's been at Hall County. Now, you say, how has he done this? He's...we have other counties that have come into Hall, and they're now being handled--our veterans service officer is serving other counties as well as Hall. So that's how that's being done. Back to my notes here, the other departments did increase their salaries and their benefit lines. All offices could not comply, obviously, with these askings or these mandates of ours, but they did what they could. And how did they do it? They put off replacing positions for a month or two; Hall is down 11 employees over the last just three years; computers are being used until they die, not until they're outdated; little or no money is being spent on furnishings; our people share all sorts of things; and security has basically been left unaddressed except for a few locked doors. This year we asked department heads not to increase their budgets, including salaries. In addition, we have told them that, going forward, employees will most likely absorb the increases in health insurance; therefore, they'll actually take home less pay. When we set salaries recently for the four years upcoming for elected officials and so on, elected officials received 1 percent for four years. Supervisors received none; we froze ours for the next four years. Their health insurance, like the rest of our employees', will increase. By state statutes, counties have a 50-cent lid, and that's if we are fortunate enough to have 5 cents' worth of interlocal agreements. In addition, counties have a legislative-imposed annual budget lid of 2.5 percent; we can raise it to 3.5 percent with a supermajority, and I'm sure you know that. Meanwhile, for years, salaries and benefits, primarily health insurance, have been rising in the double digits. Those of us with unions are saddled with the CIR, the Court of Industrial Relations, causing us to compare salaries and benefits with other counties and not local

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business. Don't misunderstand, we certainly at Hall County, and I'm sure other counties as well, want to pay adequate salaries and be fair to our people; but under the present system the result is that we have 13 paid holidays, sick leave, and vacation far exceeding local business practices and, in many instances, salaries that are higher than the private sector would be paying. We certainly wish, as I mentioned, to treat our employees similarly, those that are not union as well, because if we don't, I'm sure common sense would tell you that we'll soon have more unions. The other evening I was watching the evening news; our economic development person, Marlan Ferguson, who's very bright and very good, was talking about the fact that we need economic growth to pull us out of the state and national crisis. And I'm sure that's something that we can all agree on. He went on to explain--it's on TV, so you can see the cornfield behind him--that we need infrastructure to entice companies to locate here. They don't want to wait, you know, while all that's being put in place, because they want to act now. And that's all true enough. He mentioned that we need roads. Evidently, there's a program--and I missed part of this--but, evidently, there's a program that we're now proposing to stimulate the economy, in which money would be used for roads and infrastructure. I really couldn't believe what I was hearing. Hall County, because we can't afford to keep up the overlaid roads that are already there--we bought a Zipper two years ago; we're grinding our roads up and putting them back to gravel. So you wonder if somebody has the big picture here. And, you know, you also wonder how some corporate guy with Gucci shoes on is going to feel about this when he gets out of his car and looks to come to Nebraska in our rural areas. I know this is a lot of information, and it's complicated. So I guess I'll get to the end result here. County government and the amount of state funds that you're supplying for us, in my estimation, is pretty meager. We actually need more. Is it a huge part of our budget? No, it isn't. But at this point, every single dollar counts, and it counts a great deal. We have no place to go but property tax. So, you know, the fact that you don't want to raise taxes--we don't either. But we've got no place to go. We don't have another significant funding stream. Our infrastructure is failing: bridges and roads are dangerous. In Hall County, our sheriff has been asking for more deputies for several years. We can't afford them. In fact, we can--so he does his best--we can hardly afford the cars to keep him--that's their office--we can hardly keep him in new cars. This doesn't sound to me like creating a very safe community or an atmosphere for economic development and thus recovery. Thanks for listening. Oh, by the way, I wanted to mention that I made a couple of notes here. Hall County is the largest of the small; by far, we're the smallest of the large. And so we suffered the jail reimbursement as well. So people didn't like that bill, but we were getting about \$225,000 from jail reimbursement a year. And, yes, we did get our costs in as soon as we could, because we knew the money was going to run out. It's never been funded like it should have been. So we did our best to manage our money. Now, with this year's--another \$175,000--you can see that we're down almost \$400,000. So it's a little different picture than might be shown here. I know you'll do what you think is right. County government, however, is really not a stepchild. We are the basis of county activity, when you think about it--we assess the property; we're the keeper of deeds; we

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transfer property; we collect the taxes; we distribute the taxes to other local governments; we do all the licensing, from marriage to vehicles; we hold, we prosecute, we defend, and we judge all legal offenders. Also, that's--53 percent to 54 percent of our budget in Hall County goes to the guy who doesn't know how to mind the law. And we do more, as well, that I just didn't add here. We are a great value for the dollar that you spend. And, as I said, we're not really the stepchild; in fact, we're a very lean kid at the table. So with that, if you have questions, I'd love to try to answer them. [LB96]

SENATOR UTTER: Thank you, Ms. Lancaster, for coming. And so we'll...any questions for...? Senator Fischer. [LB96]

SENATOR FISCHER: Thank you, Senator Utter. Thank you, Supervisor, for being here today. I represent 13 counties, so I think I have a pretty good appreciation for county government. I do appreciate that you don't want to raise property taxes. That's always difficult to do. It sounds like you've made some cuts, which I think is appropriate. If the state doesn't make the cuts to counties or cities or NRDs in the aid that we provide to you through our revenue, which is sales and income tax, are you suggesting that the state raise sales and income tax in order to accomplish that? And pass those state dollars on down to the counties then? [LB96]

PAMELA LANCASTER: Well, I would just suggest to you that you have that option. We don't have an option but property tax. And... [LB96]

SENATOR FISCHER: Well, I would suggest to you that the only option we have is sales and income tax. So you're saying it's okay, then, to raise sales and income so you don't have to, as an elected official, raise a tax, is that correct? [LB96]

PAMELA LANCASTER: Well, some counties actually are at their lid. We happen to be at about 47 cents, so we do have some room. In fact, we did go through that exercise. And if we were allowed to, which we're not--we have the 2.5 percent budget lid--but if we were able to take every single dime left to reach 50 cents, we could take another million, and then we're done. So, you know, and I would just say to you, we've not made some cuts, we've made huge cuts--I mean, to the fact that it's really affecting the way, I think, the safety of our community. I think it's affecting the possible assistance in economic development and recovery. I mean, I think...and counties should be a part of that. I know you have a--I'm not suggesting that your task isn't difficult. I'm just suggesting that we've been here doing this for a very long time. And I can only suggest to you what counties should do. I don't want to be here setting one government against another; that isn't my intent in any way; I can't do that. But... [LB96]

SENATOR FISCHER: If we don't...as a state, we have to balance the budget, too; and we've been making cuts for a number of years. And this year we're faced with a bigger one. And I think Senator Adams, who's joined us, will chime in about state aid to

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schools and the cuts that we're looking at making there--double-digit cuts, instead of maybe a 2 percent cut as it would be to counties. If the state, which...I don't support raising sales or income tax. So if we don't raise taxes, do you have any suggestions on what we should cut if we're going to keep passing state revenue down to counties? [LB96]

PAMELA LANCASTER: I can tell you that whatever happens in county government, we're going to make it work. For me to suggest to you...and, sure, I have... [LB96]

SENATOR FISCHER: No, I'm not trying to be confrontational; I'm being sincere. What, you know, what do you think we need to cut at the state so we can balance the budget--if we don't cut you, if we don't cut county government? And what do you receive under aid from the state, do you know? [LB96]

PAMELA LANCASTER: What's left that we would lose this year? Approximately \$175,000. [LB96]

SENATOR FISCHER: Okay, I...but if you--and, seriously--if you can come back and say, cut \$175,000 here so Hall County gets their aid--I mean, that's what it's going to take, because that's the situation we're in. And it is pitting one entity against another. It is pitting somebody's project against another project. It is making that tough decision on whose life you're going to affect when you cut a program. But as an elected official, you know that; and that's where we are too. So... [LB96]

PAMELA LANCASTER: And I... [LB96]

SENATOR FISCHER: ...but I do... [LB96]

PAMELA LANCASTER: I appreciate where you are. [LB96]

SENATOR FISCHER: ...appreciate your comments. Thank you. [LB96]

SENATOR UTTER: Other questions for the witness? Senator Hadley. [LB96]

SENATOR HADLEY: Senator Utter, thank you. I (inaudible) appreciate your being here. Have there been steps--do you think there have been enough steps, especially in the larger counties, to look at combining of services between cities and counties? And I ask that--I don't know what percentage of population Grand Island is of Hall County, but I would guess it's a fairly large part of Hall County, population-wise. Have you looked at trying to combine services with the city of Grand Island to try and cut costs? [LB96]

PAMELA LANCASTER: We have. In fact, we have...our E-911 emergency management is combined. Our...I should have made a list. But we have multiple services. Our--even

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our IT program, our GIS program--we're combining everything that we can. I think that there are some...our police and sheriff's offices, which is a huge budget to us--they're collocated. Our...and I would suggest to you this isn't a--this is not a combination of services, you know, with the city, but we do--we are responsible--there's no city jail; so we're responsible for it all. And a few years ago we did pass the first, and at this point only, bond from the County of Hall in its existence to build a new corrections facility. First of all, ours was unsafe for our people as well as the people we hold, and so we built it larger than was necessary. We appealed to the people for this. And that is bringing...what we attempted to do was build it large enough that we could rent out the extra space and have it cost no more to operate the new facility over the old facility. Now, we knew we were never going to make up the dollars--it was approximately \$3 million in the old facility--we knew we were never going to make up those dollars. But we did, in fact, feel that the, that perhaps the million dollars it was going to cost us to operate the new facility--the additional million--could be made up in revenue. And we're about a year and a half into this, and we think this year we'll do it. So, I mean, we're doing stuff, I mean, all kinds of stuff. And, you know, you say: Give us ideas. Yes, I think it's kind of inappropriate in a public setting. I mean, I've suggested to several senators some thoughts, but it's kind of inappropriate in a public setting for me to say to you: Yeah, I think you ought to do this and this and this, you know. But I would be glad to come visit with you. [LB96]

SENATOR HADLEY: I would go on record to cut my salary. [LB96]

PAMELA LANCASTER: I'm sorry? [LB96]

SENATOR HADLEY: I would go on record to cut my salary, it's so large. (Laughter) [LB96]

PAMELA LANCASTER: I'm not sure it would have a great impact. [LB96]

SENATOR UTTER: Further questions for Ms. Lancaster? Senator Louden. [LB96]

SENATOR LOUDEN: Yes, thank you, Senator Utter. At the present time, the way this bill is written, you'll still get that \$30,000; the counties will still get that \$30,000. [LB96]

PAMELA LANCASTER: Oh, I think we're being X'ed out--was my understanding. [LB96]

SENATOR LOUDEN: Okay, well, I just--when I read it in there, the \$30,000 isn't..."amount up to thirty thousand." But anyway, are you familiar with the TEEOSA funding? [LB96]

PAMELA LANCASTER: I'm sorry, with...? [LB96]

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SENATOR LOUDEN: The TEEOSA funding used for school districts, you know. [LB96]

PAMELA LANCASTER: No. [LB96]

SENATOR LOUDEN: That the school districts--if their mill levy is above a \$1.04 or \$1.05, they're entitled to state aid. [LB96]

PAMELA LANCASTER: Oh, yes. [LB96]

SENATOR LOUDEN: If they're below that... [LB96]

PAMELA LANCASTER: Okay. Yes. [LB96]

SENATOR LOUDEN: ...they don't get any state aid. [LB96]

PAMELA LANCASTER: Yes. [LB96]

SENATOR LOUDEN: Do you think we should do something like that with this county aid? Any of these counties that have a mill levy below 35 cents shouldn't get any state aid, and those above 35 cents would get the state aid? There's about 50 counties that's above 35 cents. [LB96]

PAMELA LANCASTER: I think it would be a good idea to get into a setting where all options could be discussed and come up with the best option. I'm really not prepared to sit here and say what you should, you know, how we can manage this best. But we thought we had a pretty good formula from last year, where we were--several of us, like I said, we were--Hall County was actually going to lose in the initial portion of this, because we were going to give up the... [LB96]

SENATOR LOUDEN: Jail fees. [LB96]

PAMELA LANCASTER: ...jail reimbursement. [LB96]

SENATOR LOUDEN: Yeah. [LB96]

PAMELA LANCASTER: But we thought that, in the long run, that it was a good and fair way to do things and that, hopefully, with good--with a good economic forecast, we would see some revenue in the future. So we were willing to bet on the future. Well, that didn't work out so well. [LB96]

SENATOR LOUDEN: Well, the way it is, see, they didn't say you wouldn't get any in this bill. It just says that you might not, because they're going to start from zero instead of seventy-five hundredths (sic) of a percent. Now, how much faith do you have in

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Appropriations Committee going to zero? Because they have the option to go anyplace from zero to zero--or twelve and a--twelve-point-five hundredths (sic) percent, so... [LB96]

PAMELA LANCASTER: Well, I'll tell you that--I'll step right out there and say, I like this bill a whole lot more than I do the other bill. I mean, you know, at least we have a fighting chance. And if we can all work together and make this state the great place that we know it is, you know, and help with the recovery, we've got a fighting chance of getting some revenue for counties. But in the meantime, it's going to be really tough. I mean, it...you can...I think I laid it out for you. It's tough at home. [LB96]

SENATOR LOUDEN: Okay, thank you. [LB96]

SENATOR UTTER: Other questions? Seeing none, Ms. Lancaster, thank you for coming. [LB96]

PAMELA LANCASTER: Thank you. [LB96]

SENATOR UTTER: Appreciate it very much. Other opponents. Good afternoon. [LB96]

DEB SCHORR: (Exhibit 1) Good afternoon. Revenue Committee members, it's nice to see you again. My name is Deb Schorr, D-e-b S-c-h-o-r-r, and I am the chair of the Lancaster County Board of Commissioners. Lancaster County is testifying in opposition to LB96. Lancaster County is opposed to any bill that could decrease revenue to the counties. Lancaster County will receive approximately \$1.4 million in state aid this fiscal year. And Lancaster County is not only concerned about LB96 but the many other bills that have been introduced that will have a negative impact on revenues for the county. The change LB96 is making could zero out the amount for state aid for future budget years for Lancaster County. Lancaster County is willing to work with the Legislature to help with budget issues and would be willing to discuss a cut in state aid, but allowing a reduction to zero will force Lancaster County to discuss an increase in property taxes with our constituents. LB96 would at least leave the state aid calculation in statute, while LB383, discussed yesterday, would completely remove the state aid statutes. The property tax for Lancaster County is 26.83 cents, but the Lancaster County Board of Commissioners has taken a stand not to raise the property tax levy, and it has remained the same for the past three years. With an average valuation increase of only 0.83 percent, the amount of property taxes has become flat. Property taxes are the main source of revenue for our general fund. So losing another revenue source, even though it is only 2 percent, causes us concern. Interest income for our general fund has decreased over the past couple years by approximately \$2 million. And, again, it is not a huge amount, but any decrease in revenue forces cuts. The levy is only at 26.83 cents, but the entire 15 cents that is allowable for miscellaneous subdivisions is allocated out. This would include our fire districts, the ag society, the RTSD, and a few others as well.

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An increase to the levy would be a little less than a penny, but it would still be a property tax increase and difficult for our constituents. The Lancaster County Board has made some tough decisions over the last couple years while maintaining the same property tax levy. On the average, our salaries and health insurance increase by approximately \$2 million per year. One of our union contracts had a 3.5 percent increase the last of a three-year contract while another has not yet been settled and will be heading to the Commission on Industrial Relations. Lancaster County sold the county-owned nursing home, as I mentioned yesterday, and cuts were made to decrease our general fund by approximately \$1 million. Salaries of elected officials, chief deputies, and department heads did not increase this year. And certain positions have not been filled. The county board has been taking a hard look at mandated versus non-mandated functions. The programs at our community mental health center took a \$400,000 decrease last year because they were determined to be non-mandated functions. Other human service-type programs were cut at \$225,000 as well. Another type of non-mandated program is our community corrections program, which has helped because of the overcrowding currently at our county jail. Lancaster County has approximately \$7 million worth of expenditures of non-mandated functions paid with by property tax, and that results in about 7 percent of our expenditures. These programs have some costs up-front but save money in the long run in our county jail, our youth services center, and our crisis unit. In addition, Lancaster County saves money by cooperating with the city of Lincoln, and we currently operate over 40 different interlocal agreements. Lancaster County is willing to work with the committee, but to zero out state aid through LB96 could affect property taxes at the local level this coming year as well as future fiscal years. Thank you. [LB96]

SENATOR UTTER: Thank you, Ms. Schorr. Questions for the witness? Senator Hadley. [LB96]

SENATOR HADLEY: Senator--Ms. Schorr, thank you for coming in and visiting with us. I guess the question I have is--the property tax levy is 26.83 cents. [LB96]

DEB SCHORR: Um-hum. [LB96]

SENATOR HADLEY: That seems...if we go to a TEEOSA--talking about the school aid formula--we talk a lot about "local effort," meaning what are the local school districts willing to kind of pony up to do it. And we talk about the--they have to have a certain mill levy before they can even have state aid. I guess I have to ask, does that seem like a low mill levy, 26.83 cents? [LB96]

DEB SCHORR: Well, I would consider the 15 cents in that as well; that's part of our local effort; those are all Lancaster County residents paying additional sums in property tax. [LB96]

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SENATOR HADLEY: Excuse me. The other 15 cents, then, is...? [LB96]

DEB SCHORR: The other 15 cents--it's allowable for miscellaneous subdivisions. [LB96]

SENATOR HADLEY: Okay. So that would bring it up to 41. Then is your mill levy for Lancaster County 41.83 or give or take? [LB96]

DEB SCHORR: When you consider the miscellaneous subdivisions included as well, yes. [LB96]

SENATOR HADLEY: Okay. [LB96]

DEB SCHORR: And if I could address your question that you asked Ms. Lancaster, the interests and concerns faced by Lancaster County and Douglas County and Sarpy County are much different than those out west. And so to attempt to put everyone on an equal playing field with local effort I think would take quite a formula as well, because you can't--I don't think that you can compare the two equally, because the issues that we face are so different from the ones that they face. [LB96]

SENATOR HADLEY: I guess just as a follow-up and so that Senator Fischer doesn't have to ask the question--you know, we're sitting here, that if we can't balance our budgets, we have to raise either income tax or sales tax to do it. And I guess I've listened a lot lately, and it seems like no one wants to touch property tax because it's like the lightning rod sitting out there. But--not you but other people seem to think that raising sales or income tax is okay, while looking at raising property taxes is the lightning rod. Would you have any comments on that? [LB96]

DEB SCHORR: Property taxes has a tendency to hit those with most--the least amount of disposable income, those on the low-income scale. Certain types of sales tax are more discretionary; I can decide if I want to buy the, you know, the \$50,000 car or the, you know, \$5,000 used car. So I guess I would look at it in that way, that property taxes have the tendency to hit those less--homestead exemptions, you know, potential cuts there--hitting those least able to pay. [LB96]

SENATOR HADLEY: Okay. Just as an aside, I think a lot of economists think the sales tax is probably the most regressive tax, because of people--the low-income having to spend a much larger portion of their salary on those things. But it is just interesting. And I agree, when we go home... [LB96]

DEB SCHORR: Um-hum. [LB96]

SENATOR HADLEY: ...you would think that the state had this huge property tax that we

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levy. And we, basically, aren't involved in the property tax business. [LB96]

DEB SCHORR: Um-hum. [LB96]

SENATOR HADLEY: But for the average citizen out there... [LB96]

DEB SCHORR: That's the number one. [LB96]

SENATOR HADLEY: ...they think we are absolutely... [LB96]

DEB SCHORR: Um-hum. [LB96]

SENATOR HADLEY: ...the person that's handling the property tax. And we do hear a lot about it. [LB96]

DEB SCHORR: Um-hum. [LB96]

SENATOR HADLEY: So thank you, Ms. Schorr, I appreciate it. [LB96]

SENATOR UTTER: Other questions for the witness? [LB96]

SENATOR PIRSCH: I just have one. Could you just...you indicate it's 2 percent this would hit you. But can you give me an idea in raw dollar terms what that would be? [LB96]

DEB SCHORR: \$1.4 million. [LB96]

SENATOR PIRSCH: But let me clarify...oh, \$1.4 million? [LB96]

DEB SCHORR: \$1.4 million. Um-hum. I believe that's in the second or third sentence. [LB96]

SENATOR PIRSCH: There you go. [LB96]

DEB SCHORR: Um-hum. [LB96]

SENATOR PIRSCH: Okay. And you said 53 percent, 54 percent of your--the expense that you're--and I may be going, actually, based on Hall County--but is that approximately what you experience, that the majority of your expenses as a county are going towards the criminal justice system? [LB96]

DEB SCHORR: Oh, I would say ours are much higher. I'd say we're two-thirds. Much higher. Would say, not only in law enforcement--we have a significantly higher number

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of courts in Lancaster County. [LB96]

SENATOR PIRSCH: Okay. Thanks for answering. [LB96]

DEB SCHORR: Um-hum. [LB96]

SENATOR UTTER: Senator Louden. [LB96]

SENATOR LOUDEN: Yeah, thank you, Senator Utter. Ms. Schorr, when you say that you're 26.83 and then the other 15 cents is on top of that, which is--that's the way it is in statutes... [LB96]

DEB SCHORR: Um-hum. [LB96]

SENATOR LOUDEN: ...your fire districts, hospital districts, and everybody else gets to decide that. And when I said awhile ago that there were a little over 50 counties that were above 35, that's the 35... [LB96]

DEB SCHORR: 5 of the 26. I understand. [LB96]

SENATOR LOUDEN: ...plus the 15 on top... [LB96]

DEB SCHORR: I understand. [LB96]

SENATOR LOUDEN: ...which puts them at 50, or they're over the maximum. And we have a lot of counties that are in the 40s, many counties--I haven't got the complete numbers, I was working on it before I came down here--that are at 40 cents. And that's the reason I'm wondering if we should be looking at some of this stuff--such as the way we did with state aid when they talk about the rich districts and the poor districts. And now the shoe is on the other foot, where your metropolitan areas are the, mostly, are the rich counties, because Omaha and some of these counties down here are all below 35; many of them are below 30. And that's the reason I'm wondering if there should be some adjustment that way so we can kind of take care of some of these rural counties that--well, they're supposed to be some of the poorest counties in the nation. [LB96]

DEB SCHORR: I understand that. I think that's why we're supporting the formula as it is in statute now, because... [LB96]

SENATOR LOUDEN: Yeah, but it... [LB96]

DEB SCHORR: ...it does take into--many of those types of considerations. [LB96]

SENATOR LOUDEN: Well, yeah, but this goes--this formula more or less goes in as

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population. So, actually, the more populous counties get more state aid, don't they? Than do the non-populated ones? [LB96]

DEB SCHORR: I believe there are several factors involved, yeah. [LB96]

SENATOR LOUDEN: Okay, thank you. [LB96]

SENATOR UTTER: I have just one question. I find the valuation figures that you reported, a 0.83 percent increase in valuation... [LB96]

DEB SCHORR: Um-hum. [LB96]

SENATOR UTTER: ...per year for, what, the last four years? I find that an interesting figure, considering what's happened to farmland values and what's happened to the land values... [LB96]

DEB SCHORR: Um-hum. [LB96]

SENATOR UTTER: ...that surround growing cities like Lincoln... [LB96]

DEB SCHORR: Um-hum. [LB96]

SENATOR UTTER: ...and looking at the new construction that is taking place in Lincoln. That surprises me. [LB96]

DEB SCHORR: Well--and that was just for the last year. I don't believe that I said... [LB96]

SENATOR UTTER: What happened the... [LB96]

DEB SCHORR: It was a four-year average--it was a one-year...and we were...the area that we benefited from was farmland valuations. Now, it is on a one-year delay, so we certainly are hopeful this year we will see a larger increase than 0.83 percent. [LB96]

SENATOR UTTER: Do you have the figures on what happened the previous two or three years prior to last year? [LB96]

DEB SCHORR: Oh, with me is our budget and fiscal director, Dennis Meyer, so... [LB96]

SENATOR UTTER: You can...we'll give you an opportunity to testify. [LB96]

DEB SCHORR: Okay. [LB96]

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SENATOR UTTER: Yeah. [LB96]

DEB SCHORR: I don't have those figures off the top of my head. But we certainly are most hopeful. And I think that's another reason that we are hoping that the formula stays in the statute--as, you know, times improve, that we might be able to provide more local effort, that the amount of state aid... [LB96]

SENATOR UTTER: What--what--? [LB96]

DEB SCHORR: ...requested would decrease. [LB96]

SENATOR UTTER: What has happened to your levy rate? What's been the history there over the last four years or so? [LB96]

DEB SCHORR: We have held it at 26.83 for three years consistently. And that was a very, very strong desire of the board, because we knew that our constituents were struggling. And the last thing that they wanted or needed was a property tax increase. [LB96]

SENATOR UTTER: They, by that same token, they probably don't want or need additional income taxes nor sales taxes either, do they? [LB96]

DEB SCHORR: We don't have that ability. [LB96]

SENATOR UTTER: Thank you, Ms. Schorr. [LB96]

DEB SCHORR: Thank you. [LB96]

SENATOR UTTER: Next testifier. Welcome. [LB96]

DENNIS MEYER: Thank you. Here's this. Okay, good afternoon, Revenue Committee. My name is Dennis Meyer, D-e-n-n-i-s Meyer, M-e-y-e-r, and I am the budget and fiscal director for Lancaster County. I just kind of want to get up here, maybe, to help answer Senator Utter's--couple of your questions you just had that we can kind of talk about. On the valuation history, you know, when we talk about 0.83 percent over the last three years--I'll even go back four years. Four years ago our valuation increased at 1.65 percent; it then increased by 2.41 percent; then it actually dropped and went--it decreased by 0.77 percent; and then this last--or this year that we're kind of in right now is about 0.85 percent. So we've kind of...you know, if you want to look back on our ten-year history, you know, when you look back there, and that was kind of before I was there, and I always kind of sit back and think--I see those 13 percent increases in valuation, you know, the 14 percent increases. You know, we have not been--lucky is

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not probably the right word, but, you know, lately we have just really kind of flattened out, so that every budget year that we go into, at this point in time, we project a zero percent increase on our valuation. You know, for the most part, if you talk to probably the city of Lincoln or LPS, the public school here, you know, our valuation increase has probably been just a tick higher than theirs because of the ag land. So ag land tends to be such a small portion that it--you do get that a little bit, but you just don't get enough to really make a huge difference one way or the other. I'll also--you'd also asked about levies. The last three years we've been at the 26.83. Over our last ten years--you know, back in '01 we were at 26.43, so it was a little bit lower. It kind of ticked up. But now we're kind of backed out, so we haven't--you know, our average is probably right about on that 26.83 over the last ten years. Main difference is we just don't get the valuation increases that we've been seeing. So it does affect that. Otherwise, you know, I just kind of wanted to answer any other questions you might have. [LB96]

SENATOR UTTER: Senator Hadley. [LB96]

SENATOR HADLEY: Senator, thank you. I appreciate you being here. Am I correct in following the logic--then, basically, for the average property owner in Lancaster County, the last three years their property taxes have been flat, then, also? If valuations have not been going up... [LB96]

DENNIS MEYER: Yes. [LB96]

SENATOR HADLEY: ...and you have not changed the mill levy, basically they're paying the same now that they paid three or four years ago. [LB96]

DENNIS MEYER: Right. [LB96]

SENATOR HADLEY: Is that a fair statement? [LB96]

DENNIS MEYER: And for the most part, you know, from Lancaster County's side. But also when you take, you know, when you look at a city of Lincoln taxpayer at this point in time--between the county, the city, and the school district, everybody has done a real good job, where our overall levy has actually decreased... [LB96]

SENATOR HADLEY: Decreased. Okay. [LB96]

DENNIS MEYER: ...while valuations are staying, you know, right around where they have been. [LB96]

SENATOR HADLEY: You know, it's a great state, Nebraska is--you know, the 400 or 500 miles across and a couple, 200 or 300 miles north to south. But we have so many different types of counties also, because you have counties out west, where the ag

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lands have--the valuations have been going up 15 percent and 20 percent a year...
[LB96]

DENNIS MEYER: I mean, no doubt about it, because... [LB96]

SENATOR HADLEY: ...where a farmer sits there and suddenly gets a 20 percent increase in their property tax bill year after year. [LB96]

DENNIS MEYER: I mean, no doubt about it. You know, the ag land right now is the main driver. And at this point in time it's not much of a driver in Lancaster County.
[LB96]

SENATOR HADLEY: Okay. Thank you, sir. [LB96]

DENNIS MEYER: You bet. [LB96]

SENATOR UTTER: Senator Adams. [LB96]

SENATOR ADAMS: Thank you, Senator Utter. The question I have for you--and I apologize for coming in late, you may have already answered it before I got here. So you've built budget in the last three years based around an assumption of zero valuation growth, is that what you said? How did that compare with your personnel costs in terms of salary increases over the last three years? [LB96]

DENNIS MEYER: Commissioner Schorr did discuss a little bit. We average--you know, going into a budget year we kind of assume our personnel increases, salaries and benefit-wise, will probably increase anywhere from \$2 million to \$2.5 million. So when you start dealing with those, to keep that levy at where it has been, it has forced cuts, because that's... [LB96]

SENATOR ADAMS: But what percentage--that \$2 million? Give me a ballpark idea.
[LB96]

DENNIS MEYER: I would tend to say what we're probably talking--I'd say we're probably talking close to--that's a 5 percent increase. [LB96]

SENATOR ADAMS: So you build in a 5 percent increase for personnel costs on a zero percent valuation anticipated growth. Gotcha. [LB96]

DENNIS MEYER: Right. So--and like Commissioner Schorr mentioned, we cut our general fund by \$1 million, so that kind of--you kind of got to take that all into effect.
[LB96]

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SENATOR UTTER: Further questions? [LB96]

DENNIS MEYER: If I could answer one more question, maybe, because you had talked about interlocal agreements, and Commissioner Schorr talked about our 38 or 40 of them. Here in Lincoln and Lancaster County--I'll just throw out a few of our examples. Our personnel department is one unit; our IT department is one unit; we use one purchasing department. So--planning is one department. So we have tried to do quite a few things on interlocal agreements, just for the fact that it, you know, with the city and the county pretty much sitting in the same building, it only makes sense to, you know, to cooperate and use the same individuals. [LB96]

SENATOR HADLEY: And I would hope you would consistently try to do that, because that, as a senator, that is a question I get at times, is: Is there duplication of services between the cities and the county? And, you know, it isn't in McPherson, where you only have 325... [LB96]

DENNIS MEYER: Right. [LB96]

SENATOR HADLEY: ...people or something like that. But when you talk about Buffalo County, Bellevue, Sarpy, Douglas, Lancaster, where you have huge... [LB96]

DENNIS MEYER: Right. [LB96]

SENATOR HADLEY: ...cities involved in the counties, I hope that you continue to... [LB96]

DENNIS MEYER: Yeah, and that's what we've been trying. So then there's, you know, like with our personnel department, we split it based on: city has got this many employees, we got this many--so that's the split for the cost. [LB96]

SENATOR HADLEY: Well, I'm glad to hear that, because I think that's a... [LB96]

DENNIS MEYER: So we do... [LB96]

SENATOR HADLEY: ...very positive thing. [LB96]

DENNIS MEYER: ...we do try to do that as much as we can. [LB96]

SENATOR UTTER: Senator Pirsch, you're recognized. [LB96]

SENATOR PIRSCH: Yeah. And I appreciate your testimony. And it may be a subtle distinction, but I think it's important to me. With respect to what you've said here today--you've talked about the tax levy, and you've talked about valuations, and I just

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want to be perfectly clear, then, all right. Does that...what you've testified--everything has been flat--does that also correlate with respect to your spending? Or have you found alternative sources such that your overall, aggregate spending has gone up in higher amounts than your either valuations or tax... [LB96]

DENNIS MEYER: No. Like for example, with our general fund: our general fund actually did decrease \$1 million from this year to last year--or last year to this year. So we have... [LB96]

SENATOR PIRSCH: Okay. [LB96]

DENNIS MEYER: ...we have been forced to decrease. Plus, when you sell the Lancaster Manor that has a, let's just say, a \$20 million budget, and you take that off your books, your total, overall budget will decrease. [LB96]

SENATOR PIRSCH: So that's what you've had to do to balance out, then, the extra, you said... [LB96]

DENNIS MEYER: We've... [LB96]

SENATOR PIRSCH: ...2.5 percent increase? [LB96]

DENNIS MEYER: Yeah, we've had to kind of--we've really had to kind of take a look at things that are, really, so-called non-mandated. And that was one of the items when we started discussions about the manor; it was one of those items that's not a mandated function. We looked at projections, thinking, you know, with the way Medicaid is going, with the possibility of dumping property tax into that thing, we had to make the decision, you know, what are we going to do with it? So we started looking at non-mandated functions. [LB96]

SENATOR PIRSCH: Right. But that's basically been going to wages, if there is one growing segment. Okay. [LB96]

DENNIS MEYER: Wages is, no doubt, the big elephant. [LB96]

SENATOR PIRSCH: Okay. Thank you. [LB96]

SENATOR UTTER: Other questions? Thank you... [LB96]

DENNIS MEYER: Okay. Thanks. [LB96]

SENATOR UTTER: ...Mr. Meyer. Good afternoon. [LB96]

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JAMES PETERSON: Good afternoon, Senator. My name is James Peterson, J-a-m-e-s P-e-t-e-r-s-o-n. I live at 2703 238th St., Eagle, Nebraska. I am the current chairman of the Cass County Board of Commissioners. The Board of Commissioners of Cass County oppose LB96. You've heard a lot of detailed testimony from the other testifiers, and I'd like to maybe change what I'm going to say here and address Senator Hadley. Your comment was quite interesting, when you were talking about the different demographics of our counties throughout the state of Nebraska. And I feel that Cass County is a county that has--is going to be faced with rapid change over the next 10 to 20 years as our demographics are going to change. In the last four years, the Cass County commissioners have spent a great deal of time having citizen retreats to find out what the citizens of Cass County feel about the county and where it's going to be going to. The result of this is that we know, as we are located between Lancaster, Sarpy, and Douglas, that our demographics are going to go from more agricultural to urban. We need to get our infrastructure in place and develop the economic plans to meet those changes. So we've been putting funds towards the goal of improving the roads in our demographics. The I-80 corridor commission, which was funded by the Unicameral, had a direct study of from the Platte River all the way to the Lancaster County line. So you take that study plus everything else that we've been able to look at--just tells us that we need to be prepared. So throughout the last four years and on into the future, we've spent a great deal of our time analyzing our infrastructure and improvement of roads and economic development. Unfortunately, in the last year we had four FEMA disasters that have hit our budget extremely hard. We have applied for money from FEMA, but we haven't received it. So it's had a major effect upon our budget for this year; and, hopefully, as we get the money things will improve. Our benefit costs for health insurance, retirement funds, etcetera, have all increased, like every other county, but we need to find a way to maintain our budgets to meet our future. And I just strongly oppose LB96. [LB96]

SENATOR UTTER: Thank you, Mr. Peterson. Questions for Mr. Peterson? Mr. Peterson, tell me, if you will, what's happened in Cass County with regard to valuations in the last three or four years. [LB96]

JAMES PETERSON: The...our valuations on homes--and I have--remained very steady; we haven't received a major decrease. And what's really assisted us is the agricultural land that we have in Cass County has increased. So we've been able to maintain our level at a pretty steady rate. [LB96]

SENATOR UTTER: And so you're--you've had valuation increases. [LB96]

JAMES PETERSON: Exactly. [LB96]

SENATOR UTTER: What's happened to your levy? [LB96]

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JAMES PETERSON: We're right at 39.75. [LB96]

SENATOR UTTER: And has that been pretty steady the last three or four years? [LB96]

JAMES PETERSON: We...yes. The last four years we've gone from 40 down to 38.5--in that area. [LB96]

SENATOR UTTER: Okay. [LB96]

JAMES PETERSON: We receive about \$130,000 in state aid. [LB96]

SENATOR UTTER: Senator Hadley. [LB96]

SENATOR HADLEY: Just a quick question. The 38 or 39--is that without any of the extra...? [LB96]

JAMES PETERSON: Without. [LB96]

SENATOR HADLEY: Without. So you could (inaudible). [LB96]

JAMES PETERSON: Correct. [LB96]

SENATOR HADLEY: Yeah, okay. [LB96]

JAMES PETERSON: Rural fire districts and etcetera. [LB96]

SENATOR HADLEY: Okay. [LB96]

SENATOR UTTER: Further questions for Mr. Peterson? Seeing none, thank you very much for your testimony. [LB96]

JAMES PETERSON: Thank you. [LB96]

SENATOR UTTER: Good afternoon. Welcome. [LB96]

FRED UHE: Senator Utter, members of the committee, my name is Fred Uhe; the last name is spelled U-h-e. I'm the chief deputy county clerk and registered lobbyist for Sarpy County. I'm probably going to ignore half my remarks, because it's been pretty well covered. But I think one comment I do want to make is that, probably, amongst the subdivisions county government is the one that's probably closest aligned with state government. We're an agent for the state of Nebraska in quite a few of the activities that we do, whether it's holding prisoners arrested on state charges, issuing state motor vehicle titles, etcetera. So it's probably a partnership that maybe needs to be

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reexamined perhaps. Senator Hadley, you mentioned yesterday that--maybe take a look at the system. And this might be a pretty good time to do it. I understand the realities of the state budgets. As you've heard before, the counties are in the same boats. We know schools are, cities as well. If you look at our sources of revenue, most of our local sources of revenue, any fees and stuff, are actually set by statute. And over the years I've had state senators say: You need to operate more like a business. And my response always is: You show me a business charging 1983 prices and I'm going to show you something probably pretty well boarded up. And so it's...I applaud Senator Cornett. She met with us back in December; we knew this bill was coming. We had all worked very, very hard to develop the new formula, and--but we're appreciative of her sharing the state's budget crisis and our role in it. So probably...I signed in yesterday against the bill but figured it was a long hearing and did not comment, so we were definitely opposed to LB383 yesterday. But, you know, I think, again, this bill, while removing the floors, does make it more of an appropriation issue. And so if the forecasting board meets in February and things are rosier than they appeared, maybe we will get some of our fair share. But, again, I think the reality is that we do need to take a look at every action that impacts county government and vice versa. Senator Fischer, you have a bill on housing HHS. We have a 4,000-square-foot space that HHS thinks they don't need but they aren't willing to release. At the same time, Sarpy County is leasing property on the outside. So that's a prime example of maybe some...realigning this partnership a little bit might make it a little bit, you know, fairer...and a variety of issues--increasing penalties: you know, someone is being sent to the county jail for 7 days versus 14; well, that, again, impacts us. And whether we've come to the solution...Senator Pirsch, I think you asked yesterday on mandates versus discretionary; we examined that last night. Some of our discretionary: you know, maybe we take better care of our roads because in the long run it's going to save us money; we've started some diversion programs, pretrial services, that aren't mandated but yet, with our jail being overcrowded, it does save us a much higher rate of pay on...you know, so we're attempting to be as modern and providing services to our taxpayers as possible. But, again, when a large part of our income--we can't increase our prices to meet our inflation pressures, it gets a little frustrating, which puts the--instead of charging the user, it goes to the property taxpayer. I'll just touch on a couple things, and I'll provide you guys a--kind of our history of valuations. Sarpy has been the fastest-growing county in the state for some time, but last year on our revalued property there was actually a 1.3 percent decrease. We did have some growth of new values coming on-line, so there was a slight increase. Overall, our budget increase this year is a 0.8 percent. Healthcare costs, I think, increased over 6 percent; personnel costs were about 5 percent. So we are making some of those tough cuts. But we would be willing to be at the table and help examine some of these things on--whether it's housing state agencies or services we perform on behalf of the state--and would be willing to kind of reexamine, maybe reinvent for a 21st-century government. So with that, I'll quit babbling and be willing to take any questions. [LB96]

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SENATOR UTTER: Thank you very much for your testimony. Is there questions?
Senator Fischer. [LB96]

SENATOR FISCHER: Thank you, Senator Utter. Thanks, Fred. I assume you're going
to come in, then, and support my bill. [LB96]

FRED UHE: Yes. [LB96]

SENATOR FISCHER: Good. [LB96]

FRED UHE: Strongly. [LB96]

SENATOR FISCHER: Good. I would suggest, if you can find other mandates that
counties are facing, maybe we can even amend that into the bill, too, and... [LB96]

FRED UHE: Okay. [LB96]

SENATOR FISCHER: ...get some of those taken care of. For six years I've been asking,
you know, my counties to look for some. We finally found one. So it takes time, I know,
but we need to get... [LB96]

FRED UHE: I think sometimes... [LB96]

SENATOR FISCHER: ...we need to get rid of those things. [LB96]

FRED UHE: You know, Senator Cornett is actually carrying a bill on DNA testing.
Probation--I think it's coming with a very high fiscal impact on them. Well, if Probation
doesn't do it, the counties are doing it. So that's a prime example. I mean, there's...we're
starting to identify--so we'll try to get the list together as soon as possible. [LB96]

SENATOR FISCHER: You know, but that's going to be what it takes. As I drive through
and by Sarpy County, there's a lot of building going on--a lot of commercial building
going on. I guess I'm surprised you haven't seen an increase in--I'm assuming you
haven't seen an increase in commercial valuation. What's the deal on that? [LB96]

FRED UHE: The rates actually have gone down, so I... [LB96]

SENATOR FISCHER: Why? [LB96]

FRED UHE: ...and we're hoping the economy...I think the rate of building--I'll get you the
figures and break them down, because we--there's something, because we'd see, like,
a \$5 million increase in value, added value. I think last year it was \$2 million. So there's
things coming on-line, but it's really a slowed-down...I mean, basically, our property tax

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revenue, well, we had the benefit of having some growth. We've held our levy static for a good number of years, but--which naturally means we're seeing an increase in budget. But, conversely, we're also seeing an increase in costs. I mean, you know, it's amazing, the sheriff's office tell me how many stops they may have to some of these construction sites for people stealing copper and things of that. So you've got some things not even on the tax roll that we're providing services. And--but I'm not complaining; I mean, it's much easier to have the problem of growth than not to have it. So, I mean, we'll gladly take it. But--so when people look at that--yeah, you're seeing growth, but, I mean, it's with a greater demand on services for a county government. [LB96]

SENATOR FISCHER: Do you have a lot of TIF property? You know, I--like Cabela's, Embassy Suites, that area. [LB96]

FRED UHE: No. La Vista did not... [LB96]

SENATOR FISCHER: Was that involved in that program at all? [LB96]

FRED UHE: La Vista did not TIF that. I hope I have the figures correct. I mean, La Vista--the city of La Vista, you may remember--was it 2005? We had LB500, which was kind of a bill that came before this committee, on sales tax. [LB96]

SENATOR FISCHER: I believe that was one that didn't pass. [LB96]

FRED UHE: No, it did not pass. And so La Vista actually stepped up, and I think they...as a parking lot district...is my understanding that Cabela's parking lot is actually owned by the city of La Vista, to the tune, I think, of about \$9 million with the fountains and stuff. So, I mean, there was a tremendous investment there. So we've been lucky; there's not a whole lot of TIF. I mean, it's...not saying...I think there's some--some of our cities are looking at it. Probably the one farther back that was kind of controversial was Menards in Bellevue off Kennedy Freeway, that you had a, you know, tremendous impact on the Bellevue school district and the county. [LB96]

SENATOR FISCHER: You know, sometimes communities, I think, shoot themselves in the foot. They don't want to raise property taxes; they want to see growth; so they offer a variety of incentives, including tax increment financing. Then you only have growth in the ag sector, with valuations; so you tax your farmers more to carry the property tax burden to support the services in your community. I mean, you get in kind of a vicious circle, I think. But... [LB96]

FRED UHE: I won't disagree. Because with the county, you know, we fund the Sarpy County Economic Development Corporation for probably over \$100,000 a year. We're, I believe, still the only county in the state with a sewer. We did the County Industrial

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Sewer Act back in the early '90s, which allowed us to run a sewer out along Giles Road, which is where Cabela's...I mean, really, that would not have developed, probably, without the infrastructure or the roads we put in place. And that's where some of the pressure on the--on our roads budget has been reduced, because that's one area where we can cut. And we're attempting not to be penny-wise and pound-foolish, because the infrastructure does create the investment. And, you know, members of the administration always love coming to ribbon-cuttings in Sarpy County, but they've also got to realize there's expenses involved in that. And so we need some of the revenue flexibility to kind of continue to grow, so... [LB96]

SENATOR FISCHER: Okay. Thank you very much. [LB96]

FRED UHE: Okay. [LB96]

SENATOR UTTER: Further questions? Thank you... [LB96]

FRED UHE: Thank you. [LB96]

SENATOR UTTER: ...very much for your testimony. Appreciate it. Mr. Dix, good afternoon; welcome. [LB96]

LARRY DIX: (Exhibit 2) Good afternoon. Senator Utter and members of the committee, for the record, my name is Larry Dix, spelled D-i-x. I'm executive director of the Nebraska Association of County Officials, appearing today in opposition to LB96. But with that, I want to say--I want to thank Senator Cornett for introducing this bill. And you may say: Well, now, that's rather odd, Larry; why are you thanking a senator to introduce a bill that you oppose? When we really look at LB96, LB96 allows counties--state aid to counties, really, to live another day. It does, when you look at it, it does take what...when I look around and remember the debate last year on the bill Senator Cornett referenced--I'd probably have to go back to my notes--but I think everybody on the Revenue Committee voted for the advancement of that bill last year, everybody that sits on this Revenue Committee. And so that's why I think it's very important that we look and we somewhat take some time to talk specifically about the bill. The handout that you received...yesterday and today we've had numerous questions about: Okay, County A, where are you at on your tax--where's your tax levy? Where are you at? What's the valuation? The information that you have in front of you is taken from the Department of Revenue's Web site, and it is based on the certificate of taxes levied. And so that is where that information comes from. But I think you'll see some of the information to some of the questions that a number of you have had numerous times. And so I, hopefully...hopefully, that's helpful. And I apologize; I should have brought that yesterday, knowing that there would be some of those questions. But a couple of things that I want to touch on, really, to have sort of a rather good dialogue, because I'm going to put some things on the record that sometimes people don't want to

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go there; and, you know, these are times when I think we have to have those discussions. Whether people want to go there or they don't want to go there, I think we have to have those discussions. And so I would say, and I think you have heard from a number of our county board members, that we've had many times senators would say: Well, where are you at on your tax rate? Where are you at? Are you setting it at 22? Well, you have room--you have room. Okay. Well, I've got to tell you, for a county board member to increase the levy is as tough of a decision as it is for each one of you to raise sales tax. It's not taken lightly. It is something that is discussed. I know county board members agonize over moving those levies by a fraction of a penny. And I think you've heard from some of our board members today, we've actually reduced tax rates, as I think we should. I mean, I don't see anything wrong with that. But it's an agonizing thing. It isn't as easy as saying: You have room, so you increase property tax. I don't think anybody here is an advocate of property tax. We're not saying anybody is here as an advocate of sales tax--increased sales tax or an increase in income tax. But I've got to tell you, it's not as easy as it sounds when you say: You have room. Senator Hadley, one of the things I wanted to throw out there--you had talked about the cooperation, and I just want to make sure it wasn't missed in the conversation when Supervisor Lancaster was here. One of the other things that they do: the veterans service officer there is veterans service officer for five different counties. So the cooperation in the interlocal agreements--those are certainly going on. And it brought a smile to my face when you said: When we go home and the constituents talk to us about, "What are you going to do about property tax?" Well, I've got to tell you, if I get a group of county board members in a room, they have a pretty good smile on their face, too, because people come up to them and say, "What are you going to do about property tax?" thinking that the county board, because they are the county board of equalization, and you get a tax statement from a county--many people think the county board controls everything on that tax statement. And we all know that's not the truth. There's schools levies; there's ESUs; there's NRDs; there's cities; there's counties. And so I sort of smile. And I get that comment a lot of times when I'm interviewed--people are saying: Well, what's counties going to do? I've got this tax statement; what are you going to do about it? Well, you know, we're about one-twelfth--we're about 12 percent of the issue on that tax statement. And so I think that's an important item that everybody really, really is aware of. The unfunded mandates issue. Yesterday we talked a little bit about--okay, what's this represent? It represents 10.5. And this year is just--it's a tough year on counties. And I think Senator Adams and I had a little bit of dialogue about that. Yesterday I mentioned that, one bill in Judiciary, that Lancaster County had a fiscal note of \$75,000. Yesterday in Judiciary there was another bill that was there, and when they were talking about the component that impacted counties, it had a \$19 million fiscal impact shift to counties. We've got all kinds of bills in the Legislature this year that are shifting. So I don't want anybody to walk of here thinking: Okay, this 10.5 is it; then the counties are good; they ought to be able to suck it up and take their 1.5 percent. There are other bills that significantly impact us. And so I want everybody to be aware of that. We aren't just talking about this state aid. The thing that could help us...I don't want to be up here

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complaining, and I don't want you to think our county officials are complaining. But I would ask, give us some tools; give us the tools so that we can handle it locally. We've been here before. County officials have been here before. One of the ideas we've had...and we're not advocates of more tax, but I think we get into a little bit of the tax policy discussion. But give us some of the tools; give us a little bit more latitude to do some of the things that we need to do. We're going to hear a bill, behind this one, that expands the use of sales tax for counties. We've had bills in front of this committee to expand sales tax base for counties, for heaven's sakes. We've got to be very cautious about this tax base. We're on sort of a fragile level here. I think you heard today, Lancaster County--that tax base isn't skyrocketing. We've heard many people say agricultural land is skyrocketing. But if that bubble ever bursts, oh, my word, you won't have to worry about how many counties are at their levy limit; I mean, they're there; they're all going to be there. So I take that pretty serious. And I look out down the road, thinking that, you know, this is something that when we talk about tax policy, it's something that we look at not just to get through this year's budget, it's something we have to look at for the next ten years. What is the policy that we implement here? And how does it impact us--future, down the road? So I hope that some of those comments sort of resonate with the committee and that we can have a discussion, so that, as we all know, something will come out, it'll be debated on the floor. But we as counties take it pretty seriously. We also feel, as counties, that we're a little bit different than some of the other political subdivisions, because I think we are agents of the state; we are an extension; we do a tremendous number of things for state government. So with that, I'll let you answer (sic) any questions, and I'll get some of the other comments in when the questions come. [LB96]

SENATOR UTTER: Thank you, Larry... [LB96]

LARRY DIX: Thank you. [LB96]

SENATOR UTTER: ...for your testimony. Senator Hadley. [LB96]

SENATOR HADLEY: Senator Utter, thank you. Mr. Dix, the same question I asked yesterday of Ms. Rex and a couple other people--I think we need to be very concerned about policy on this committee and that we don't make knee-jerk reactions just to the times. Would you help us a little with, you know, the tax policy involved with state aid to counties? [LB96]

LARRY DIX: Yeah. [LB96]

SENATOR HADLEY: Why--you know, what is the underlying policy that the state should be taking resources and sending them back... [LB96]

LARRY DIX: Sure. [LB96]

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SENATOR HADLEY: ...to counties? [LB96]

LARRY DIX: Well--and I'll tell you, to set up a little bit of background, you know, my background--I've been sort of bouncing around this since in the '70s, as many of you know. But when you talk about tax policy--there's times when people have talked about--many years ago they talked about a three-legged stool, and that's sales tax, that's property tax, and that's income tax. And, you know, when you look at tax policy and things that I have looked at--is you want to look at your different political subdivisions of where they get their taxes, that they are not put into a tax policy so they only have one of the legs of the stool. So that, as we look at state--state has sales tax, and they have income tax; those are the two primary revenue sources. Cities have sales tax and property tax; those are their two primary sources. Counties have property tax. So when I talk about the tools that we need so that we can handle what comes at us locally and we talk about sales tax policy, I think that's a discussion that we should have, is that: Do we have enough tools for that policy? What you always see from a tax policy point of view, historically, over the years, when times are tough: if your tax policy is such that the state provides state aid, when times are tough, that is always one of the first things on the chopping blocks. We've seen that. We've seen that over the years in schools--in state aid to schools. We've seen that, I think, over the years. We actually have a chart that we keep in our office that sort of shows over the years what's happened when we've had our 2 percent cuts and our 5 percent cuts and things like that. So you always run the risk of, when you have state aid, that if there's a cut, that's going to impact county government, in this instance, in the state of Nebraska. But it's a risk worth taking. It's a risk worth having, that, when there is state revenue available and when we can look at property tax, it should. The other thing I think we look at...and this is part of where people are saying: I don't know if we should go there or not--or, you know: You're going to get in a lot of trouble saying this. But, you know, when we look at state aid to counties, we talk in the realm of: it's going to be property tax relief, because it comes to us--that's the only thing we can do, is provide services or reduce our rate. Also in the state of Nebraska, we also have a property tax credit. And I think that has to play into this whole discussion. I think we're fooling ourselves if we just think--we take it at face value. And as I said, I'll throw some things on the table that people sometimes don't want to go there. But I think we have to look at that; I truly do, because that is part of the discussion on tax policy--everything on the table. [LB96]

SENATOR HADLEY: Thank you, Mr. Dix. [LB96]

SENATOR UTTER: Other questions for Mr. Dix? Senator Adams. [LB96]

SENATOR ADAMS: Thank you, Senator Utter. Larry, you brought it up; I know it's a hot item, but if counties had their choice between county aid and elimination of the property tax credit, what would be the trade-off? [LB96]

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LARRY DIX: Well, you know, from what I hear, quite honestly, I hear more people and I hear more citizens that are saying, we would rather have the ability for the locals to control--to have the money to do the services that we're asking of them as opposed to a property tax credit. It gives them more tools. They feel closer, locally, to their elected folks, so that they can have an impact on the services that they want to provide. [LB96]

SENATOR UTTER: Senator Pirsch. [LB96]

SENATOR PIRSCH: Larry, conceptually, do you look at...I guess you're proposing at least looking at repealing the property tax credit program that was implemented a few years back. Would that be tantamount to a tax increase, in your, kind of, view? [LB96]

LARRY DIX: No, I think there are--when you look at this and when you start laying everything on the table, the property tax credit...and I don't think I said we should repeal it. There is--I think in that program there's well in excess of what there is in county aid; I think there's a significant amount of dollars. And even the other day, when I had an interview with an Omaha news station, I said we've got to find the balance. It's all about balance; it isn't about, is one better than the other? I think we've got to establish tax policy so there's a balance, so that we can provide for our neediest of neediest folks. And there are some folks that--and you've heard the arguments with the property tax credit: some folks that may own more real estate get more advantage out of that than some of the neediest folks that do not own real estate. And so it's the balance. And I think that's the discussion we have to have. I don't know what the right balance is, but I think 49 senators can sort of decide where that right balance is. [LB96]

SENATOR UTTER: Senator Adams. [LB96]

SENATOR ADAMS: Larry, if you had to...let's assume that this were to move out and it were to pass. Then you'd be in front of the--counties would be in front of the Appropriations Committee pleading your case. [LB96]

LARRY DIX: Absolutely. [LB96]

SENATOR ADAMS: And kind of a loaded question--but what would you plead for? [LB96]

LARRY DIX: You know... [LB96]

SENATOR ADAMS: 10 percent cut? 50 percent cut? [LB96]

LARRY DIX: ...it's...you know, before the session started, you know, somebody asked me that question: What do you think you ought to do? And I said, well, you know, we

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looked at LR542; LR542 really, sort of, talked about trying to achieve a 10 percent cut to most state aid programs. And I went on record saying, you take the 10 percent cut, we're done--we'll say, thank you very much; we'll struggle with it; we'll deal with it. We'll walk away, and we'll take that 10 percent cut, and you won't hear from us. But what we've seen proposed is LB383, which is a 100 percent cut. And when we look at this bill, you can argue that it's--could be no cut; but realistically, we know that it will be. I think if we go to the Appropriations Committee and they would say 10 percent, and they'd look at it and say, you know, but we really need to squeeze 20 percent out of it, I think we'd say, okay. We have always had the opinion we're in a partnership with the state. We've always had that position. And we always have the position that we need to maintain that partnership. And so I think as a show of unity, there has to be a little give and take. [LB96]

SENATOR UTTER: Other questions for Mr. Dix? Not? Larry, thank you... [LB96]

LARRY DIX: Thank you. [LB96]

SENATOR UTTER: (Exhibit 3)...for your testimony. Other opponents. Seeing none, is there anyone here that would like to testify in a neutral capacity? Before I invite Senator Cornett to close, I want to put on the record that the county commissioners of Richardson County have submitted a letter with their concerns regarding LB96, which will be read into the record. Senator Cornett, you're free to close. [LB96]

SENATOR CORNETT: Thank you very much, Senator Utter. By bringing the two bills--the one yesterday, which completely eliminates aid to counties, cities, and NRDs, and then this bill, which allows the Appropriations Committee to fund it at a level that they feel they can afford--we brought two different philosophies forward. And that is the purpose of the two bills. A lot of people have said that while a recession is a bad thing, it does open doors to looking at how things are done. The bill I introduced yesterday completely rewrites how we do things in this state for our cities, counties, and NRDs and takes a completely different philosophical approach to what we do. The bill today holds the idea of what we have fundamentally done in place but leaves the idea--or leaves the option for funding or not funding depending on the money. It will be up to this committee to decide: Do we rewrite how we do business in this state moving forward? Or do we stay with the status quo and work on trying to the fund the counties into the future? There was one point that I wanted to make, and I had spoke to Fred Uhe about it, and I've also spoke to my research analyst, Steve Moore, about it. I do believe counties have the right to impose a sales tax for public safety purposes with a vote of the people. Sarpy County had one on the ballot this last election cycle that was defeated, for a jail. So there are other options for counties for public safety that are available. And it brings me back to something that I heard testified to today. Senator Hadley brings up a very good point. I believe Ms. Schorr said that property tax hits the people that are most "inable" to pay. I think, fundamentally, tax policy proves that

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property tax is geared at the people most able to pay, because they can afford to purchase property, whereas sales tax is a regressive tax. Income tax is our most progressive tax. But that is something that we need to keep in mind with that. When we talk about cutting at the state level...and those cuts that we're making--I keep hearing that we're pushing increases back down to the county levels. We are making some incredibly tough decisions at the state level, things that can't be pushed back to the county levels per se. Medicaid--that's a tough one. Schools--I believe Senator Adams has a bill or a portion of a bill that freezes school spending also. So you would not be pushing it back onto the counties or property tax. It is up...and I heard today that we are taking options away from our municipalities. No, we're not. What we're doing is giving them the choice to either make cuts, like we are doing, or raise taxes. And we have to move forward with that in mind. The state is facing a significant deficit. Without these cuts, we will not balance our budget. And anyone that does not want to make these cuts, on this committee, had better have a plan to fund--to find those funds elsewhere or where else those cuts are coming from. With that, I urge your support of the bill. And thank you. [LB96]

SENATOR UTTER: Thank you, Senator Cornett. With that, that closes the hearing on LB96. Senator Schilz, you're welcome to come forward and open on LB106. Welcome to Revenue. [LB106]

SENATOR SCHILZ: (Exhibits 4, 5, and 6) Senator Utter, members of the Revenue Committee, thank you so much for the opportunity and the pleasure to introduce LB106 to you here today. My name is Ken Schilz, K-e-n S-c-h-i-l-z, and I represent Legislative District 47. LB106 is introduced to expand the uses of the existing county option sales tax so it could be used for transportation infrastructure. The bill would also set up a process or define a process where the county would develop a one-year and three-year plan that would incorporate the projects that are to be paid for by this tax. And this tax would be revisited...or this plan, excuse me, would be revisited every year to make sure it's kept up to date and encourage continuity. Currently, county option sales tax can only be utilized for public safety. The changes proposed in LB106 do not affect the process or other restrictions that are included in the act. If a county chooses to impose this option, they must pass a resolution by the county commissioners. Once passed, they must put the proposed amount of either a .5 percent, 1 percent, or 1.5 percent rate, the description of the project, and the terms on the ballot for consideration by the voters of that county. The tax is passed by a majority of the voters and will be imposed upon the normal sales tax items within the county but not in any community that has a local option sales tax in place. Dakota County is the one county right now that is taking advantage of the county option sales tax for public safety and there are a couple areas that will be addressed later in testimony that I know of where counties could utilize this option. One is my home county, Keith County. Lake McConaughy has a great ability to draw large crowds from out of state. This change in legislation would allow Keith County to move forward with much-needed projects that have not been able to find funding to

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this point. The other county that we have discovered could use this county option sales tax would be Sheridan County, Senator Louden's district. And they had contacted us in looking at using this to maybe offset some of the issues that they're having up in Whiteclay and use it for law enforcement, and they want to make sure that this bill moving forward will have that ability to do that. I won't take up any more of your time, but I would like to reiterate that this is not a new tax. It is a reasonable expansion of what the proceeds could be used for. It is set up so that people will have the final say as to whether or not to impose this tax within their respective counties. I've provided three letters of support to be read into the record, and with that, I encourage your support for LB106. Thank you, and I'd be happy to answer any questions if you have any at this time. [LB106]

SENATOR UTTER: Thank you, Senator Schilz, for bringing the bill. Questions for Senator Schilz. Senator Adams. [LB106]

SENATOR ADAMS: Senator Schilz, I'll ask you, and if you don't know and somebody else can answer it--but given that you represent Sidney and we have talked in this committee about the Advantage Act... [LB106]

SENATOR SCHILZ: Uh-huh. [LB106]

SENATOR ADAMS: ...have you thought about the impact here and those rebates? [LB106]

SENATOR SCHILZ: As far as on the county? [LB106]

SENATOR ADAMS: Right. If you had an Advantage Act company outside of your corporate limits and they chose to take sales tax credits, does it leave the county, for whatever project they've gone to the voters for, short? [LB106]

SENATOR SCHILZ: And that's a very good question and one that I guess you would have to ask somebody else. I'm not sure if it does that or not. [LB106]

SENATOR ADAMS: Okay. Fair enough. [LB106]

SENATOR SCHILZ: I can't tell you. [LB106]

SENATOR UTTER: Senator Hadley. [LB106]

SENATOR HADLEY: Senator. Senator Schilz, thank you for coming. I will not treat you the same as I was treated in the Natural Resources and ask some intricate question on page 26, but I will ask you... [LB106]

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SENATOR SCHILZ: (Laugh) I got the bill just in case. [LB106]

SENATOR HADLEY: (Laugh) The last part of it says that any community that has already imposed a local option sales tax... [LB106]

SENATOR SCHILZ: Um-hum. [LB106]

SENATOR HADLEY: ...so what you're saying is that you can't... [LB106]

SENATOR SCHILZ: You can't double up. [LB106]

SENATOR HADLEY: Double up. [LB106]

SENATOR SCHILZ: That's right. [LB106]

SENATOR HADLEY: But the question I have is, are they allowed to vote on the issue? [LB106]

SENATOR SCHILZ: Yes. Every person within the county gets to vote on the issue, yes. [LB106]

SENATOR HADLEY: Okay. Do you think that that might be problematic in passing it, then, if I take Buffalo County as an example, with 30,000 out of the 38,000 people in Kearney, that we have the extra half cent? [LB106]

SENATOR SCHILZ: Uh-huh. [LB106]

SENATOR HADLEY: I just wonder if it might not be difficult to get it passed because they're going to say, you know, we're paying our half. So I just wonder if you... [LB106]

SENATOR SCHILZ: You know, and that's... [LB106]

SENATOR HADLEY: I just throw that out as an idea. [LB106]

SENATOR SCHILZ: ...that's a great question, and, quite honestly, if you're going to impose a tax on somebody, you better be able to prove that it's worthwhile and get everybody on board to do that. And that's what we attempted to do here, is to make sure that we have local control, make sure that the people have a say, not just on imposing it to start out with but even moving forward as they revisit their plans and things, so that constituent input is always at the forefront of this. That was the whole intent. [LB106]

SENATOR HADLEY: I guess I asked that, again, Senator Schilz, from the standpoint

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that I know when we passed the extra half cent in Kearney, basically you had to be a resident of Kearney to vote on it. [LB106]

SENATOR SCHILZ: Right. [LB106]

SENATOR HADLEY: You know, we didn't let the county--the country people vote on it. We let the city people vote on it. So, you know, I just worry about opening it up where you let people... [LB106]

SENATOR SCHILZ: Well, I think that... [LB106]

SENATOR HADLEY: I just throw that out. [LB106]

SENATOR SCHILZ: Sure. But I think that if you're going to impose a tax upon the whole county, the whole county should have the opportunity to vote on it. Thank you. [LB106]

SENATOR HADLEY: Thank you. [LB106]

SENATOR CORNETT: Further questions from the committee? Seeing none...oh, I'm sorry. [LB106]

SENATOR UTTER: Just one. Let's assume that the city of Ogallala had a 1 percent city option tax. [LB106]

SENATOR SCHILZ: Uh-huh. [LB106]

SENATOR UTTER: And the county wanted to do a .5 percent. Does that mean that the city of Ogallala--the residents of the city of Ogallala as well as the county would do that .5 percent, or would the city be excluded because they already had a city option tax even though it was under the limit? [LB106]

SENATOR SCHILZ: That's the situation that you would have, is the city would be excluded from that county tax. The tax is only collected outside of those city limits where there is no local option sales tax. [LB106]

SENATOR UTTER: If there were not a local option sales tax at all... [LB106]

SENATOR SCHILZ: Then they would be charged that, yes. [LB106]

SENATOR HADLEY: Okay. [LB106]

SENATOR SCHILZ: Even if they were inside a municipality. [LB106]

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SENATOR CORNETT: I'm sorry. Senator Fischer. [LB106]

SENATOR FISCHER: Thank you, Senator Cornett. How are you, Senator Schilz? [LB106]

SENATOR SCHILZ: Just fine, thank you. [LB106]

SENATOR FISCHER: Do you miss me in Natural Resources yet? [LB106]

SENATOR SCHILZ: Of course, we do. [LB106]

SENATOR FISCHER: I'll try to remind you of what I was like in there with my questions. (Laughter) I'm not following this, I don't think, or maybe I am and that's what's bothering me. [LB106]

SENATOR SCHILZ: Well, let's find out. [LB106]

SENATOR FISCHER: Okay. With Senator Hadley's questions and Senator Utter's questions, you know, if Kearney has the sales tax... [LB106]

SENATOR SCHILZ: Uh-huh. [LB106]

SENATOR FISCHER: ...the people in Kearney voted to do that. The people outside the city limits did not vote on that. With your bill you're saying, okay, if Kearney has the sales tax, everyone in the county votes on it but it only will be in effect outside the city limits. Is that correct? [LB106]

SENATOR SCHILZ: That's correct. [LB106]

SENATOR FISCHER: Is that fair? [LB106]

SENATOR SCHILZ: That's the way it's been set up since the act has begun. We aren't changing any of those processes. Those are in statute right now. [LB106]

SENATOR FISCHER: Okay. So we're not changing who is able to vote on this process. [LB106]

SENATOR SCHILZ: Right. [LB106]

SENATOR FISCHER: What you are changing is... [LB106]

SENATOR SCHILZ: Is what you can spend it on. [LB106]

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SENATOR FISCHER: ...expanding how the funds can be used. [LB106]

SENATOR SCHILZ: Yes, that's correct. [LB106]

SENATOR FISCHER: Right now they can only be used for public safety, correct? [LB106]

SENATOR SCHILZ: Correct. [LB106]

SENATOR FISCHER: And you want to expand that, that they can be used for infrastructure? [LB106]

SENATOR SCHILZ: Transportation infrastructure, yes. [LB106]

SENATOR FISCHER: Are you saying surface infrastructure or...I'll have to look in the bill. Thank you. [LB106]

SENATOR SCHILZ: Okay. [LB106]

SENATOR CORNETT: Senator Pirsch. [LB106]

SENATOR FISCHER: Just trying to make sure. [LB106]

SENATOR PIRSCH: Senator Schilz, as I look at the green copy of the bill, on page 2, it looks like currently it allows for finance--the local option sales tax is currently allowed for financing, and this is the language: financing "public services provided by a public safety commission" or "to provide the county share of funds required under any other agreement executed under the Interlocal Cooperation Act or Joint Public Agency Act." Okay, so those are the two existing permitted uses, and then you suggest another couple, right? [LB106]

SENATOR SCHILZ: Just one and that's to be used for...basically what we would do is public... [LB106]

SENATOR PIRSCH: Well, it says...is the words "to finance capital improvements for public safety services and" also "transportation infrastructure projects"? [LB106]

SENATOR SCHILZ: That's the new one, yeah, the transportation. [LB106]

SENATOR PIRSCH: That's just one, right? [LB106]

SENATOR SCHILZ: Right. [LB106]

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SENATOR PIRSCH: So...well, are those two separate ideas, capital improvements for public safety services and transportation infrastructure projects? Are those two different possible types of projects? [LB106]

SENATOR SCHILZ: Yes. [LB106]

SENATOR PIRSCH: Okay. So it's embedded in one bill but there are two different permitted uses. [LB106]

SENATOR SCHILZ: Correct. [LB106]

SENATOR PIRSCH: Okay. And when it talks about "to finance capital improvements for public safety services," would these types of things be allowed in some way or to what...can you differentiate "finance public services provided by a public safety commission" and this new language that you're saying "to finance capital improvements for public safety services"? [LB106]

SENATOR SCHILZ: Yeah. There may be someone behind me that can answer that better than I can... [LB106]

SENATOR PIRSCH: Okay. Okay, I'll... [LB106]

SENATOR SCHILZ: ...so I would defer. And if we can't get that answered for you, we'll get it to you. [LB106]

SENATOR PIRSCH: Would you favor, let me just ask you this, a broadening--I mean with your two issues here, in terms of broadening the permitted uses of that--would you say, go this far and no more, or would you potentially be in favor of a more general, liberal use of this potential revenue for localities? [LB106]

SENATOR SCHILZ: Well, what we have presented here in the bill is as far as we would like to go at this time. [LB106]

SENATOR PIRSCH: Okay. [LB106]

SENATOR SCHILZ: We need to...we didn't want to, in my estimation, you don't want to be too greedy when you're trying something new, so we wanted to make sure...the other thing is that there's only going to be, as far as we can see--and there may be some other places that can really use this--but there's only a few select places where this really makes sense, where you have a lot of out-of-town or countywide businesses that are not included in a municipality that has a local option sales tax. And so the amount of money that you're going to garner from something like this, we're not talking about millions of dollars. [LB106]

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SENATOR PIRSCH: Yeah. [LB106]

SENATOR SCHILZ: We're talking \$50,000 to \$150,000 a year, probably. [LB106]

SENATOR PIRSCH: Fair to say you selected these two additions because, in your understanding of the needs, these are two of the higher-order needs... [LB106]

SENATOR SCHILZ: Absolutely. [LB106]

SENATOR PIRSCH: ...in terms of what counties need. Is that why you selected... [LB106]

SENATOR SCHILZ: Absolutely. [LB106]

SENATOR PIRSCH: Okay. Thanks. [LB106]

SENATOR CORNETT: Further questions from the committee? Seeing none, thank you. [LB106]

SENATOR SCHILZ: Thank you. [LB106]

SENATOR CORNETT: First proponent. [LB106]

KARL ELM SHAEUER: (Exhibit 7) Good afternoon, Chairman Cornett and Revenue Committee members. My name is Karl Elmshaeuser, K-a-r-l E-l-m-s-h-a-e-u-s-e-r. I'm the executive director for the West Central Nebraska Development District. What the page is passing out is a card. For some of those that you don't know, there are eight development districts in the state of Nebraska established under Nebraska state statute in the Interlocal Agreement Act. Part of what we do is provide services to local villages, municipalities, and counties in trying to find them resources and tools to accomplish some of the things that they're trying to take on. On the card, if you look in the white area, that is the particular area that I represent. Our office is in Ogallala, currently represent 18 counties and 59 incorporated communities. So how do we get here today? It's vivid in my mind, because it was July 14, 2010. In the evening I was coming back from a village board meeting in Palisade, and I received a phone call from a fellow staff member, C.J. Poltack, who's here today. She was coming back from the village of Maywood, where they had just discussed local option sales tax. I had to disconnect the call, because I had to dodge a deer in order to stay on the road, so that's why it's vivid in my mind. But as she was coming back from that meeting, her thought was, what about countywide local option sales tax; if communities currently have that ability, why not counties? And so we set out to try and determine what was in place or what wasn't and what was available. As we went through the process, we were able to determine that

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the statute already existed for local option sales tax for counties but it was restrictive in use and specifically that it was only for public safety and that only, in 2005, Dakota County was the only county that had actually completed that for a jail project. What we've tried to do is dissect this to determine how do we provide the tools to the counties to come up with the means to take care of some of their issues. One in particular, for example, yesterday was in Frontier County, population 36 in Stockville, which is the county seat, and we were discussing road projects, and they're trying to find out how do they come up with their match for some of these things. Now Keith County is unique in that this past year they had approximately a million visitors that are utilizing the infrastructure that is paid for by the citizens of Keith County, but yet there are some questions about whether or not there's a fair share from those who are coming out of state that would help contribute to that, both roads, fire, public safety, EMS, those types of activities. So as we went through this, we were trying to find, are there any holes in this, one of which that we were concerned about--from Senator Hadley's question about how the residents take this into effect. If you're a resident of the county, which is already in that bill, because you also buy goods and services and are receiving those, that you have that option to have that say. That's already in the bill. We were concerned about our ag producers. How are they going to feel about having to pay an additional sales tax if they choose to do this? And by the way, this is not a new tax for new spending. This is a consumption use--I know it's a mixture of words--but basically based upon what you're bringing in, and it will have to be voted on by the people. One of the things I found unique was that LB904 enacted in 2006 requires cities and counties to expend all proceeds from local sales tax collected from sales of motor vehicles for road and street purposes unless such proceeds were pledged from preexisting bond issue. So my ag producers, even though they may pay additional amount for this, they know that that directly is going to come back in to support the roads, which is one of their number one concerns. So I think we're going to address that appropriately, knowing where those funds would be spent. The county board would have to vote to have this go for a vote of the people. The people would have to vote for it. So it is a local decision. We have specified that they have to come up with a plan and specify in that vote what they're going to use those funds for and to revisit it, similar to you would a one- and six-year road plan. So they're going to have to outline how those funds will be spent. And Senator brought up the question, too--right now we're looking that being restrictive in use and then it's also restrictive in that language when it would be brought before the people. It would be up to the county to make their pitch to the citizens of why it would be beneficial to them. Right now it would probably benefit those that receive more tourists that come into some of your communities from outstate--would probably see the benefit of this first and foremost. These citizens would have to understand that that's part of what they're leveraging in order to receive that additional funds from those who are visiting their communities. It is a tool. As I was listening to the previous bill's testimony, I'm hearing what the county is looking for is additional tools for them to use if they so choose and it is on a local decision level. [LB106]

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SENATOR CORNETT: Questions from the committee? Senator Adams. [LB106]

SENATOR ADAMS: Thank you. Do you know, sir, an answer to the question I had for Senator Schilz, about Advantage Act? [LB106]

KARL ELM SHA EUSER: No, sir, I do not. [LB106]

SENATOR ADAMS: If you had a town that had no sales tax and this were imposed but it happened to have a recipient to rebate, would these monies go back? [LB106]

KARL ELM SHA EUSER: I am not familiar with that, that rebate program. [LB106]

SENATOR ADAMS: Okay. [LB106]

KARL ELM SHA EUSER: The other question was asked about the sales tax, if you had the half cent or a cent. That local option is already in place, so you can't...this is not on top of and does not supplant or add to if you already have it in place. But, Senator Adams, I do not have the answer to your question, sir. [LB106]

SENATOR ADAMS: Okay. Fair enough. [LB106]

SENATOR CORNETT: Further questions from the committee? Seeing none, thank you. [LB106]

KARL ELM SHA EUSER: Thank you. [LB106]

SENATOR CORNETT: Next proponent. [LB106]

LARRY DIX: Good afternoon, Senator Cornett and members of the committee. For the record, my name is Larry Dix. I'm the executive director of the Nebraska Association of County Officials appearing today in support of LB106. Let me try to...first let me go that LB106 does give an additional tool for the counties. It expands what we could use county sales tax for. There are only so many jails and law enforcement and public safety projects that you have, but when we look at the big picture again, and again when we start to talk about tax policy, this gives the opportunity at least to enact something that would bring more economic development to a county, which then could increase the tax base. So when we look at it from a tax policy point of view, we believe this is good. We believe it's a good tool for us to have, therefore we support that. The question that came up in regards to who votes and when--I would call your attention in the bill on page 3, and if we would start at line 6: The powers granted by this section "of this act shall not be exercised unless and until the question has been submitted at a primary, general, or special election held within the area which would be subject to the tax." Now, I'm not an attorney, so I'm going to leave it up to legal counsel to make the

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determination "within the area," and I think that is really the question. So I would look at the committee and say, with this bill we're opening up this section of statute; now would be the time to clarify the definition of "within the area." And we could define it so that it is to all voters of the county or to the voters outside of a municipality that has imposed a sales tax. So I point that out to you. Senator Adams, your question--I would be the first to say I'm not the most knowledgeable on the Advantage Act and how that functions. I would tell you, from based on what I have seen and heard and some of the issues that our cities are going through in...when they ask for these rebates, that we would look to have this excluded from that, so that would sit outside of that, just given the history that we've had. So with that, I'd be happy to answer any questions anybody has. [LB106]

SENATOR CORNETT: Senator Utter. [LB106]

SENATOR UTTER: Larry, looking at...let's look at Adams County, for example. [LB106]

LARRY DIX: Okay. [LB106]

SENATOR UTTER: Hastings has a local option sales tax--as a matter of fact, I think the full 1.5 percent now... [LB106]

LARRY DIX: Okay. [LB106]

SENATOR UTTER: ...with the latest of these. Smaller communities in Adams County do not have a local option tax, to the best of my knowledge, so should this proposal be presented to the people of Adams County it would seem to me to be a stretch to say that the residents of Hastings get to vote on whether or not the businesses in Kenesaw have to charge a local option tax or not. Does that... [LB106]

LARRY DIX: I understand exactly what you're saying, and I would again refer to that, whatever the definition of "in the area," whatever legal definition that comes down. But again, the committee has the opportunity to craft that however the committee would want that to be. [LB106]

SENATOR CORNETT: Senator Fischer. [LB106]

SENATOR FISCHER: Thank you, Senator Cornett. Thank you for pointing that out on the voting and that "within the area." My concern is that if a city already...and I love roads, everybody knows I love roads; however, the way the bill was first presented, that if a city already has the sales tax and then the vote is taken with everyone within the county, you basically have added a new tax, in my opinion. Yes, it's done by a vote of the people, but I have a real problem with a city that already has voted the tax, for them to vote it on Kenesaw or other small communities in that county. So maybe the answer is there on page 3 with the part you pointed out, "within the area." [LB106]

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LARRY DIX: Yeah. Yeah, and I think, you know, that's just a discussion of the committee to say, you know, if that's what the belief of the committee is, then we would amend this to specify that it would be for citizens to vote--the folks that could vote on it are folks that are outside of a municipality that has enacted a sales tax. [LB106]

SENATOR FISCHER: Thank you. [LB106]

SENATOR CORNETT: Senator Hadley. [LB106]

SENATOR HADLEY: Senator Cornett, thank you. Larry, talking about tax policy, we talked earlier about the state having income tax and sales tax, cities having income--sales tax and property tax. What has been the policy or what the kind of the tax policy is why we haven't allowed counties to have, basically, a local option sales tax... [LB106]

LARRY DIX: Sure. [LB106]

SENATOR HADLEY: ...because I think other states have counties that have local option sales taxes? Is there a tax policy reason that we've kind of... [LB106]

LARRY DIX: Yeah. Well, I don't know if there's a tax policy. I know it's on the books. And to say that we haven't allowed counties to have sales tax--I would say we have allowed counties to have sales tax but it is only in the areas outside of a municipality that has enacted a sales tax. So when you look at that, it's a very limited amount of revenue, probably, that would be gained. And let me use York for an example and Sarpy County. In some of those areas where it would make sense to have a county sales tax, what's happened--then the cities have come and annexed those into the city property and then it falls under the city side. So counties have been frustrated with that, because certainly we don't want to do anything to harm the city's ability and their sales tax, because that is a very important revenue stream to that. But other states do have a county sales tax that is on top of, and all the citizens vote. So if...to take an example, if today we had Lancaster County and we had the authority to have a countywide sales tax, you would have the state sales tax paid on a product, you would have the city sales tax--whatever the city sales tax is in Lincoln--and then you would have the county sales tax on that, not necessarily in that order, but that's pretty much how that would function. That would be some...that would be a significant revenue tool for the counties. I would also point out, you know, and I apologize, I was running out trying to get the answers to Senator Adams' question to find out where this was, but there's also a letter of support, I think, in your file from a gentleman from Sheridan County, and it talks a little bit about the ability...has this been talked about, has anybody? (See Exhibit 4) Okay. It talks a little bit about a situation that we've all had a discussion on, in Whiteclay, and with this currently--and we believe currently what they're talking about could be done. But it is a

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sales tax in that area that would be used for public safety. And we all know the situation, the scenario up there. But it could be a tool that they could enact a sales tax in the I don't know if it's incorporated or unincorporated village of Whiteclay, to where there could be some revenue derived to the county so the county could provide additional law enforcement. So I know there's a letter, I believe, that's on your desk that talks about that from an idea from Sheridan County, which I think is pretty novel in thinking that it addresses a problem that I know the Legislature has been struggling with for years of, you know, how do we increase the presence of law enforcement to help with some of the instances that are happening along the South Dakota border. [LB106]

SENATOR CORNETT: Senator Hadley...I mean Utter, pardon me. [LB106]

SENATOR UTTER: Thanks, Senator Cornett. [LB106]

SENATOR HADLEY: I resemble that remark. (Laughter) [LB106]

SENATOR CORNETT: That's okay, I was Senator Fischer yesterday. (Laugh) [LB106]

SENATOR UTTER: Larry, there's a lot of counties in the state this would have very limited value, because in order for it to work, there has to be retail businesses that have--that have the ability to collect sales tax outside the city limits if there is local option taxes. [LB106]

LARRY DIX: Right. [LB106]

SENATOR UTTER: And so it would...in some counties it's not going to generate a whole lot of funds. [LB106]

LARRY DIX: You're right. And to give you the most extreme example, probably, in Arthur County, if the village of Arthur had a city sales tax, there wouldn't be probably any other businesses outside of that municipality that are going to be able to charge a sales tax to generate...or Banner County, which doesn't even have a gas station. There's not enough commercial activity to be of any assistance. And that's why I go back to Senator Hadley when we talk about the tax policy; the benefit really is a countywide sales tax. That's where significantly there's some significant help. [LB106]

SENATOR CORNETT: Further questions from the committee? Senator Louden. [LB106]

SENATOR LOUDEN: Thank you, Senator Cornett. Yeah, Larry, Jack Andersen and I have had discussions over this for about two or three years now on what they can do about that. Whiteclay is unincorporated, and I think Whiteclay donates in \$3 million of state sales tax, and that's what they were looking at, and there's nothing that Sheridan

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County can do to get any relief from what they have to take care of up there. And so Jack, as their Sheridan County commissioner, has looked to see if he can do something about that. Also in Sheridan County we have this manufacturing of cattle equipment in Clinton... [LB106]

LARRY DIX: Right. [LB106]

SENATOR LOUDEN: ...which I've heard does anywhere from \$8 million to \$20 million-some worth of business a year. Some of that goes out of county and I don't know if that would be taxed or not. It depends on if the people come and buy it there or if he hauls it. He hauls it clear to Brazil. Where would that fit in at? Anything...that would work just like if you're buying stuff in a town or if it's shipping it out of a town? [LB106]

LARRY DIX: Yeah, I'm not quite sure where that would be if somebody from out of state would buy that. But when you think about it, if somebody from Iowa comes into Nebraska Furniture Mart, buys something, I think, and they haul it out the door, they pay the sales tax on it. They pay that rate on it. If I, living in Lincoln, if I were to go to Nebraska Furniture Mart and purchase something and have it delivered to my house, which is outside of the city limits of Lincoln, I do not pay the city of Lincoln sales tax but I do pay the state sales tax. So I think that would be something we'd have to examine, and possibly in how this bill is written it could address that. [LB106]

SENATOR LOUDEN: Okay. Thank you. [LB106]

SENATOR CORNETT: Further questions from the committee? Seeing none, thank you, Mr. Dix. [LB106]

LARRY DIX: Thank you. [LB106]

SENATOR CORNETT: Next proponent. [LB106]

CURTIS SMITH: Good afternoon, Senator Cornett, members of the Revenue Committee. My name is Curtis Smith, C-u-r-t-i-s S-m-i-t-h. I'm the executive director of the Nebraska Chapter, Associated General Contractors of America. I'm here to testify in support of LB106. And I've listened to the testimony and I've heard Larry Dix talk, and I don't know that the generation of revenues would be sufficient but I think it's enough to consider that with the revenue shortfalls, both within the state of Nebraska and within the counties in addressing their transportation needs, they should be at least considered to pass this bill. You probably all know that there's 10,000 miles of state highways, there's 87,000 miles of local and city streets in the state of Nebraska. You know that there's a shortage of state funds for those roads to keep those up and meet the needs of the state. I know that the state of Nebraska has showed record that there's 422 closed bridges at the local level within the state of Nebraska, 74 of those in Saunders

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County; that is, the local and county needs are extensive in the highway situation. Whether or not the revenues generated by something like this would be sufficient to even begin to address those, I think they need to be considered. LB106 would provide a relatively straightforward and sensible method to at least recognize perhaps some of the needs and improvement of those needs. The bill's requirements to submit plan improvements to local voters permit those closely affected by the improvement to decide the issue. It seems an excellent way to permit the citizens to make decisions affecting the counties of the residents. That concludes my testimony. If you have questions, I would try to answer them. [LB106]

SENATOR CORNETT: Questions from the committee? Seeing none, thank you. [LB106]

CURTIS SMITH: Okay. Thank you. [LB106]

SENATOR CORNETT: Next proponent. Are there any further proponents? Is there anyone here to testify in opposition? Neutral? [LB106]

LYNN REX: Senator Cornett, members of the committee, my name is Lynn Rex, R-e-x, representing the League of Nebraska Municipalities. We would be neutral on this bill as we understand it to be drafted and as we understood the intent to be in the introductory statement. However, if this is an overlay on top of those municipalities that already have local option sales tax, in other words, if a county tax would be imposed on top of Hastings, on top of Kearney, we would...our board would oppose it. In addition, in terms of the same conditions by which municipalities have been able to get local option sales tax, we certainly think this is a good bill for counties. There are 184 cities, approximately, of the 532 that have local option sales tax right now. And, Senator Utter, as you pointed out, this will be very helpful to some counties; it will not be helpful to others. In the same way, it's helpful to some municipalities; it's not helpful to others. We do think that everyone living in the county ought to be able to vote on it, because they're county taxpayers. Matter of fact, I don't know that you can take that right away. I'm not sure. Maybe you can, but there may be some constitutional issues you'd have to address. I do think, Senator Adams, the issues you raised are very critical. I think it's very important that if there's any way that Bill Lock and Stephen can work together to figure out some way that the counties don't have to go through the hurrah that we have on the Nebraska Advantage Act, this is the time to do it, before counties start doing this. I mean, I know Dakota County already has it. Dakota County has already suffered from the issues of Nebraska Advantage Act, in the sense that South Sioux...let me put it in this context. And Senator Cornett is smiling, so let me...or grimacing, maybe it's grimacing. (Laugh) So let me put it in a different context. When South Sioux City and Dakota County went together so that they could fund the jail and issue bonds, Dakota County was not amused when they asked South Sioux City: Where is the money so we can pay off bonds? And South Sioux City had not gotten any money for months

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because of refunds on Nebraska Advantage Act and LB775. So you really do have issues dealing here with paying off bonds. And this will be the time, before other counties start adopting county sales tax, to see if there's a way to address that. Certainly the notification provisions that the committee has been kind enough to give to municipalities over a period of years so that at least we get some notice and some opportunity for municipalities to deal with this--I think that would be very important to do to counties as well. And we really appreciate the work that Senator Cornett and other members of this committee have done trying to help municipalities on these issues, because these are just huge issues. And Nebraska Advantage Act has helped the state tremendously. LB775 has helped the state tremendously. But I think there are ways here that you can address some of those issues up-front and not have to...so the counties don't have to go through the experience municipalities have. Because, as you may remember from the bills from last year, there's a 22-year window for a company to file for those refunds. Therein lies most of the problem. So in any event, with those conditions, we're neutral. We think this would be a good bill for counties and, again, be very helpful to some counties, not so helpful to others. Just like with local option sales tax, that's been true for municipalities too. I'd be happy to respond to any questions that you might have. [LB106]

SENATOR CORNETT: Senator Adams. [LB106]

SENATOR ADAMS: Thank you, Senator Cornett. Lynn, as you have looked at this bill, let me set up a hypothetical on what would be your opinion as you have read it. So if I'm a county, for instance, like Keith County, and I've got Lake McConaughy and I've got the bait shops and the restaurants and everything else that are outside of a municipal boundary, this is something really worthy of looking at doing. But let's take a county that doesn't have maybe those kind of potential retail attractions in the county, and instead we've got a community of 500 people, a village, 500 people, and the co-op is there in town and maybe the biggest retail event there is the bar and restaurant, and they don't have local option sales tax in that little village. So as you interpret this, if a vote was held by the county residents, including the residents of that village where there was no local option sales tax, and it won, hasn't the village, in a sense, kind of kicked themselves in the shins now for not having tried to beat this and get their own local option in first? Would they have any opportunity to come back and... [LB106]

LYNN REX: Yes. [LB106]

SENATOR ADAMS: Okay. [LB106]

LYNN REX: The way that the law has been interpreted is that if at any point a municipality moves for...for example, Seward County at one point had talked about doing a county sales tax. That I think was kind of the stimulating factor for the city of Seward to basically address their issue first, and so they did that. But my guess is there

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would be hundreds of villages where they will never adopt a local option sales tax but might be very receptive to a county sales tax. By the same token, you're going to have cities of the second class and some other municipalities that even after the adoption of a county sales tax would want to consider a local option sales tax, at which point if the city itself or village itself adopted a sales tax subsequent to the county having the tax, the county tax then in the future, at a date certain, would no longer apply... [LB106]

SENATOR ADAMS: Okay. [LB106]

LYNN REX: ...in that area. [LB106]

SENATOR ADAMS: Thank you. [LB106]

LYNN REX: You're welcome. [LB106]

SENATOR CORNETT: Further questions from the committee? [LB106]

LYNN REX: Thank you. Thank you all for your patience. Thank you. [LB106]

SENATOR CORNETT: Is there anyone else in a neutral capacity? That closes the hearing...or I'm sorry, Senator Schilz, would you like to close? The first person that's been here to close in a while. (Laugh) [LB106]

SENATOR SCHILZ: Thank you. Once again, thank you, Senator Cornett and members of the committee. I think that as you look at this...Senator Adams, I agree with you, if we...we need to address that. I think it makes sense. We will...we're going to do some research ourselves, too, to see what we can find out there. I do know this, and Ms. Rex was exactly right, there will be counties that there will be probably no advantage to do this. But in those areas where there are, especially when you look at an area, Keith County, like Lake McConaughy, where 70 percent of the visitors are coming from out of state and we have needs there and we can...if we can leverage those dollars, because one thing that I've learned is that when people come on vacation, that 1.5 percent or percent isn't going to affect what they do. So they're going to spend money. And I know from talking to the businesses in and around that area, they were all receptive to this, because they understand what you can do, the ones that I talked to. They understand what you can do with this money to help the economy out there. So I think it's...I think for those folks that are where it can do those kind of things, it makes a lot of sense. So I would just once again urge you all to support this bill, help me get it out to the floor and get it passed. Thank you very much. [LB106]

SENATOR CORNETT: Questions from the committee? Seeing none, thank you. [LB106]

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SENATOR SCHILZ: Thanks. [LB106]

SENATOR CORNETT: That closes the hearings for today. Thank you. [LB106]