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Revenue Committee
February 06, 2013

[LB405]

The Committee on Revenue met at 1:30 p.m. on Wednesday, February 6, 2013, in Room 1524 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LB405. Senators present: Galen Hadley, Chairperson; Paul Schumacher, Vice Chairperson; Tom Hansen; Burke Harr; Charlie Janssen; Beau McCoy; Pete Pirsch; and Kate Sullivan. Senators absent: None.

SENATOR HADLEY: If I could have your attention, please. If I could have your attention, we will get started. I appreciate everyone being here. It's always great to see the citizens of Nebraska willing to come out and interact with us and give us the information they have. Someone made a comment to me that in a lot of states this wouldn't happen. In Nebraska, it does happen. Every bill that comes...is introduced in the Legislature is required to have a hearing and that is our policy; that is the way we do things in Nebraska. So I appreciate your being here. My name is Galen Hadley. I'm the Senator from the 37th District in Kearney. To my left is Senator Schumacher from Columbus, who is the Vice Chair of the committee; to his left is Senator Pirsch from Omaha; to his left is Senator Sullivan from Cedar Rapids. On my far right is Senator Burke Harr, who will be coming; and next is Senator Janssen from Fremont; Senator McCoy from Omaha; Senator Hansen from North Platte. Our committee counsel is Mary Jane Egr Edson, to my right. Bill Lock is our research analyst and he is back in the office. Matt Rathje, to my left, is our committee clerk. Our pages are Evan Schmeits and Evan is from Columbus, and Nathan Funk is from Norfolk. Please turn off your cell phones or put them on vibrate while in the hearing room. The sign-in sheet for testifiers looks like this. It's on the back tables. I wish you would...I hope you will complete them before you come up. This is important. If you are testifying on more than one bill...we're only having one bill today, so that is it. But if you come tomorrow, you'll have to complete a sheet again. Please print and complete the sheet. When you come up to testify, hand the sheet to the committee clerk, Matt. There are also clipboards in the back of the room to sign if you do not wish to testify but would like to indicate your support or opposition to a bill. These sheets will be included in the official record. Those of you that have given us...sent in letters, they go in the committee file and each of the committee members gets a copy of the letters that you have sent in. We will follow the agenda posted on the door. The introducer or representative will present the bill, followed by proponents, opponents, and neutral. I am changing the order a little bit today. The way we're going to do it, we're going to ask the introducers of the bill, Senator McCoy and Senator Ashford will go first. Then we will have the Governor. Then we will have the Revenue Commissioner and then another Deputy Revenue Commissioner will also testify. And then we're going to have an hour for proponents, an hour for opponents, an hour for neutral. Then we will start over again, an hour for proponents, hour for neutral...or opposition, then an hour for neutral. And we will continue doing that until we are finished. The front row is for those people who are coming to testify. So as you decide to testify, you want to testify, come up to the front

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row and sit down. We have an overflow room, which is 1023, which is where the television monitors are, so you can watch it. So I would ask that if you do testify, if you would want to leave the room and go down there after you have testified, it would open up a space for someone else who might wish to come in and testify. I am not going to be using a light system today because I think this is an important enough bill. I think all our bills are important, so we want people to have a fair amount of time to tell us what they think. But what I am going to ask the page to do after we get done with the people introducing the bill, I'm going to ask them to put a clock up by the light system, and I would ask you to look at that clock when you get started. For some reason the only place we put clocks are in the back where you can't see it when you're testifying, and I've testified before and at times, time can get away from you. Okay. That just happens. So when you come up to testify, just take a quick look at the time you start, and after a little while take a look down there and see what it says. That's just to help us out. Okay. If I feel that you're becoming repetitive, I hope you don't mind that if I say, maybe it's time to wrap it up. There is nothing wrong with coming up and stating your name, and that you agree with the previous testifiers, and say, thank you, and go and sit down. There's absolutely nothing wrong with that also. We're going to have a full and complete testimony. I thank the Governor for bringing the bill and Senator McCoy and Senator Ashford, because I think we do need a discussion on this. And this is the start of that discussion. With that, I think I've gone through everything. If you have a handout, please bring ten copies. If you don't have ten copies, if you'll give it to the clerk, we'll make sure the ten copies are made for the senators sitting up here. Lastly, please, as we ask questions, we're not asking them from a personal standpoint. Our job is to find out and do the best tax policy for the state of Nebraska. So please do not take anything personal that we might ask you, or questions that might come up. With that, Senator McCoy, we will ask you to start with LB405. Thank you, Senator McCoy. LB405. Well, you get as old as I am, we talked about driving yesterday when you're old, well, that same thing happens when you're up here. Okay. (Laughter) [LB405]

SENATOR McCOY: (Exhibit 1) Well, thank you, Chairman Hadley, and good afternoon, fellow members of the Revenue Committee. I am Beau McCoy. For the record, that's B-e-a-u M-c-C-o-y, and I represent the 39th District here in the Unicameral. I'm before you again this afternoon to introduce LB405 on behalf of the Governor, or as we otherwise refer to it around our office, the lobbyist full-employment act of 2013. (Laughter) Now, with all seriousness, I want to thank all of the Nebraskans here at the Capitol today, along with all those across our state watching the hearing on television and on-line. Thanks to the many citizens who have contacted me by letter, e-mail, and phone, and for those who have taken time out of their busy lives to participate. Governor Heineman, Senator Ashford, and myself, ask for a serious and robust discussion on tax reform, and today is the first public forum of the many conversations that have already begun. Today marks the first time in nearly 50 years that our Legislature has taken up the issue of fundamental tax reform to simplify our tax system, make it more fair, and modernize it for our sons and daughters. The last few weeks I've

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had a number of folks ask me why it's been so long since we've had such a conversation? And my answer is, in many ways it's ironic that an issue as fundamental to our daily lives as taxes, can also be so incredibly complex and difficult to address. I came to the Legislature, as we all do, determined to make a difference, and vowing not to shy away from the most important and substantive issues that affect the lives of Nebraskans. The four most important reasons why I'm enthusiastically engaged in the issue of tax reform sat across from my wife and I at the breakfast table this morning. I want our four kids and all children across Nebraska to have more and better opportunities than we have had to live, start a business, and raise a family in our state. I want our retirees, like my parents, and retired veterans, to stay in Nebraska and continue to contribute to our communities. Can anyone tell me with a straight face that our current system of keeping our young people and retirees here in Nebraska is working as well as it could and should? It is time to get serious about this and this is an important part of the solution. Tax and business rankings are important, but tax reform really is about the next generation of Nebraska's leaders, our sons, daughters, and grandchildren. They're only going to be the leaders of tomorrow if we have the great jobs and lower taxes to keep them here. We are making significant progress in Nebraska but we can, and we must, do better. If better is possible, good is not enough. There is a reason why Nebraska is the good life. We have the ability, opportunity, and responsibility to create positive change and make Nebraska the best life. This tax reform discussion can help our state turn the corner and propel our economy well into the twenty-first century. Today is about our future. It's about our young people, our retirees, and our hardworking families, small business owners, and workers. I have full faith and confidence in the citizens of our state. They care about our future, and they will engage in the statewide conversation about tax reform. We need those speaking today to not only share what they may be for or against in a tax reform plan, but also to share suggestions to make our state more competitive and to thrive. A problem clearly stated is often a problem already half-solved. If you oppose or have concerns about our plan to totally eliminate the individual and corporate income taxes by lifting the sales tax exemptions on \$2.4 billion, what list of exemptions would you use? What does fundamental tax reform look like to you? I've said many times, the list we're using isn't graven in stone. It's not the ten exemptions. We'll be listening intently this afternoon and we respect and value the varying opinions that will be outlined here today. But we need to ensure the 1.8 million hardworking Nebraskans, that deserve tax reform, are not forgotten. Let me address a couple of important points regarding what we are discussing today. LB405 today, and LB406 that will be discussed tomorrow, represent a one-of-a-kind approach to tax reform that is unique to Nebraska and fundamentally different from the plans being discussed currently in a number of state capitols around America. I want to be clear. We are not proposing to raise the sales tax rate and we are not proposing to place sales tax on services. The fact is that the data specific to Nebraska proves that the sales tax in our state has been a more stable source of revenue than the income tax. And I would refer you to a handout that you all should have received a moment ago. And if you look at the graph on the handout distributed to

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you, titled "Growth of General Fund Revenue by Sources," you'll see that the blue line representing sales tax has fewer dips and valleys than the red line representing income tax. The second chart, on the reverse side of the handout, "Volatility of Income and Sales Tax," shows the actual revenue numbers from fiscal year 2002-2003 to fiscal year 2011-2012. I would direct your attention to fiscal year 2008-2009 when the individual income tax swing was negative by 17.6 percent, the sales and use tax swing was only negative by 6 percent. To determine where we want our state to be, revenue-wise and economically in the future, requires us to closely examine what our state revenue picture looks like now. Agriculture and manufacturing are huge components of our economy, and I know this discussion isn't easy or maybe even welcome for these industries. I believe I have a unique perspective on how vital agriculture is to our state as a Senator that represents the western suburbs of Omaha and also the small communities in rural areas of Douglas County. I'm a small business owner in the construction field now, but I was born and raised as a fourth-generation ranch kid on our family's cattle ranch near the Nebraska-Colorado border. I grew up in the same sod house in which my great-grandparents raised their eight children. Fixing fence, putting up hay, calving out heifers were part of my daily life, just like they are today for many Nebraskans. You know they say you can take the country boy out of the country, but you can never take the country out of the boy. It's true. Agriculture is in my blood and it's a part of who I am. My family came to America from Ireland, like many of yours, driven to make a better life through hard work and limitless opportunities. Growing up in agriculture, I learned a good work ethic and the value of working hard until the job is done. When I was 16, I didn't buy a car, I bought a tractor. I did this so my brothers and I could start our own haying business and put ourselves through college. Farming and ranching are not just industries in our state, they're a proud way of life and the bedrock of Nebraska. We should do everything we can to protect and promote agriculture and manufacturing through this tax reform discussion and we will. It's vital that agriculture and manufacturing are at the table as we continue these discussions well beyond today and tomorrow. Our citizens are not afraid of tackling tough issues. We've weathered a great number of challenges in our state's history because we have smart people who will keep working to make Nebraska even better. Recently, we faced a few issues in the Legislature when a solution seemed impossible, but people stayed at the table and didn't give up until the job was done. I'm ready to roll up my sleeves and work together with you, my fellow committee members, our colleagues, and citizens across Nebraska to better our state. Thank you for your time and attention, Chairman Hadley, and I would be happy to entertain any questions. [LB405]

SENATOR HADLEY: Just as a procedural, Senator McCoy, I don't believe we have the handout you were...okay, okay. Are there questions from the committee for Senator McCoy? Senator Sullivan. [LB405]

SENATOR SULLIVAN: Thank you, Senator Hadley. Thank you, Senator McCoy, for your comments. Appreciated your background, sharing that with us regarding growing

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up in agriculture. What can you think of, though, has changed significantly in agriculture, both from the standpoint of the way agriculture was then and is today, and with respect to tax policy in agriculture? [LB405]

SENATOR McCOY: Well, it hasn't been too many years ago when I grew up in agriculture. I think that you look at an ever-changing and global economy in agriculture today, just as we deal, Senator Sullivan, in a global international economy with all aspects of our business. You know, I have the unique opportunity to be very involved with the Council of State Governments. And I don't really believe I realized just how important of a role our state plays in regards to all aspects of our economy, but particularly agriculture and manufacturing, on the international stage when you have the ability to talk to council generals and elected and appointed officials from around the world that not only know about our state but respect and appreciate our citizens and the quality of products and goods and services that we bring to the table. So, I think what you see has changed a lot in agriculture, maybe even since I was involved in on a daily basis, is that you have a lot of volatility, whether it be weather related, whether it be related to valuations, and that includes property taxes and many other factors that go into it. I don't know that it's more volatile than when I grew up, but it's certainly cyclical, for sure. I know, I remember a lot of times that my granddad would talk about being in the Great Depression and what that meant to our family ranch and our operation and what a difficult thing it was to go through, and I know many people can relate to that. So, if anything has changed, I would say maybe increased volatility in the agriculture industry. [LB405]

SENATOR SULLIVAN: That has to be one of the concerns that I've heard from some of the farmers and ranchers that have contacted me with respect to this proposal. And one of them that I haven't really been able to answer is that they said, well, what if we put a sales tax back on...like that tractor that you talked about buying, and there's a sales tax on it, and then he or she has to go right up to the courthouse and pay personal property tax on that? Is that not double taxation? [LB405]

SENATOR McCOY: That's a...that is a very valid concern. I had a lengthy conversation at church on Sunday with a gentleman who helps run an implement dealership in Fremont. That's not in my legislative district, but I know him well and have for years. And I've heard from many folks in the farm equipment industry across our state, and that's a very valid concern. And it's one that in order to address this discussion appropriately and fully, it's one we have to take into account as we do with any of these sales tax exemptions, in my mind. [LB405]

SENATOR HADLEY: Further questions for Senator McCoy? Senator Harr. [LB405]

SENATOR HARR: Thank you, Senator Hadley. So, let's talk about border bleeding for a minute, then. We worked hard to get that not too long ago, that tax exemption in there

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for implement dealers because there was so much border bleeding. Would this just reintroduce that whole problem again? And if not, why wouldn't it? [LB405]

SENATOR McCOY: Well, the issue of border bleeding is one that, you know, we've talked about in reference to repair...sales tax on repairs and whatnot over the years, my time in the Legislature, precedes my time in the Legislature when Senator Hansen and Senator Pirsch were here before us. That certainly is a concern that I am cognizant of. I believe we are as it relates to this overarching discussion, and I think that as we go forward, you know, it really requires us to look at each one of these exemptions and, you know, the farm machinery is one of them, and see where do we need to be concerned about a competitive advantage or disadvantage. And this is certainly one of those exemptions that you have to look at that and see what are our bordering states doing, what are we doing regionally, and that has to be something that we explore in depth. [LB405]

SENATOR HARR: So, I mean, I guess what I'm getting at is, you have a \$300,000 combine. It would make sense to go to a state that doesn't have a sales tax and bring...whatever that cost is to bring it back, rather than to buy it here in Nebraska and pay that 5.5 percent. Is that correct? [LB405]

SENATOR McCOY: Again, Senator Harr, I think that's a very valid point, and one that has been brought to my attention a number of times. As I said, that was my first business endeavor in our family was walking into the bank and signing a note with our dad as...cosigning for us for some farm equipment. So I completely understand that. [LB405]

SENATOR HARR: And you lived on the border of Colorado. [LB405]

SENATOR McCOY: Uh-huh. [LB405]

SENATOR HARR: You probably, if they would have saved 5.5 percent, you probably would have gone across the border, wouldn't you? [LB405]

SENATOR McCOY: That's...you know, in the area that I grew up in, the area I grew up in... (Applause) [LB405]

SENATOR HADLEY: Oh, oh, hold it, hold it. Please, please, please. [LB405]

SENATOR McCOY: The area I grew up in, I think that, Senator Harr, to your point, to your point, you know, again, we live in a very digitally connected world that anyone has the ability to sit on a seat of a tractor or a combine and look on their smartphone and find a piece of equipment anywhere in the United States. [LB405]

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SENATOR HARR: Okay. [LB405]

SENATOR McCOY: And so these are all issues, not just that exemption but all of them are ones that we really, I think, have to look at and say, we haven't had this kind of a discussion for so long, we have to look at which of these exemptions make sense and where we can modernize and improve our tax. [LB405]

SENATOR HARR: And I...thank you. That's a nice answer. I appreciate that. And along that same line of questioning, so we do live in a modern world where we can go on the Internet and we can buy things from other states. And so that gets me to Senator Hadley and I sit on the Uniform Tax Code Commission, which deals with sales tax, for instance, Amazon that we don't pay for...you don't...when you buy an item from Amazon, it does not charge you for the item...sales tax for that item. Have you considered in there, in this bill, a way to help us collect, because that tax is...we're supposed to pay it. If we buy something from Amazon, that duty falls back on me. Doug Ewald is here, he'll come after me for that money if he knows I haven't...if I bought something and haven't paid for it. Have we gone after...have you looked at within this bill a way to go after that revenue, lost revenue that we're already losing right now? [LB405]

SENATOR McCOY: Well, Senator Harr, that's not addressed in LB405 or LB406, but I would agree with you in that, again, going back to the fact that we are such a digitally connected world, and I would imagine that the pace at which more Nebraskans on a daily basis, certainly year over year, make purchases on the Internet, that is an issue that I think many states, and frankly, nationally, we're having and we should have. [LB405]

SENATOR HARR: And why didn't we look at it in LB405, because that's like a hundred million dollars a year? [LB405]

SENATOR McCOY: Well, that was not addressed in this legislation but again primarily because we looked at what we could address. But I would be happy to look into that further with you. [LB405]

SENATOR HARR: You'd be in favor of legislation that would form a compact, though, to make sure that we do collect that money? [LB405]

SENATOR McCOY: I'd have to look and see what you're talking about putting together, Senator Harr. I wouldn't want to say that I'd be for or against... [LB405]

SENATOR HARR: That's fair. [LB405]

SENATOR McCOY: ...anything specifically without looking at it first. [LB405]

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SENATOR HARR: Yeah. No, that's fair. Okay. And then in your opening you talked about if you do not like this list of exemptions, what list should we use? I think that's a very valid question. How did you develop this list of exemptions? [LB405]

SENATOR McCOY: Well, you know, and I'll let testifiers behind me address this as well, Senator Harr, but I think we looked at you...if you want to look at how can we have substantial and substantive tax reform, well, one way to do that is by totally eliminating personal income tax, corporate income tax. In order to do that, it requires you to come up with \$2.4 billion. So, we currently exempt \$5 billion and so you can look at the list of, I believe, it's 84 exemptions, and there's a lot to look at. Some have been in place since 1967. Some, you and I, even in your little bit shorter time in the Legislature than I, both of us have voted on. To my knowledge, I think I've voted on all of them since I've been here in the Legislature because they...I think they all, at one time or another, or even maybe currently, still have very valid reasons why they're there. [LB405]

SENATOR HARR: I agree. [LB405]

SENATOR McCOY: And they all, though, I think, probably deserve a close look to see, do they still apply in our modern world that we live in now? And my sense would be that we'll hear a lot of discussion today about a number of them that have very valid reasons why they're there. [LB405]

SENATOR HARR: But you have chosen some to keep that we have currently and to keep those tax exemptions. Others we have currently are tax exempt, but under the proposal of LB405 will not be tax exempt. I guess my question is, how did you pick specifically...food makes sense to me. I get that, but how did you choose which items to remain tax exempt and which ones would not? What was your rationale and what was your thinking behind when you introduced this bill? [LB405]

SENATOR McCOY: Well, I think the idea, Senator Harr, would be to keep them as far from...that we would confine them as much as we could not to certain industries, although there are certain industries as I mentioned in my opening that are affected potentially, more or less under this, but to find out which ones made sense. Hey, I don't have an ego in this. If somebody has a better list than I, I'd love to hear it. And I would say, as I said in my opening, these aren't graven in stone. This isn't the ten exemptions. I think that you could look at any number of these exemptions. We may decide that the, I think, 27 that are currently touched on in the legislation, there's a totally different 27 that need to be used throughout this discussion. That's why we're here today. That's why you only have a discussion like this... [LB405]

SENATOR HARR: And that's fair. [LB405]

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SENATOR McCOY: ...once so...very long time. [LB405]

SENATOR HARR: Fifty years, yeah. But that's my question is, because we are having a conversation, we have to start from somewhere and that's what you have done, and I appreciate that. And I'm trying to figure out how you picked those though. So how did you pick which ones we would eliminate the tax exemption on or didn't you, or did you work in a group? How did we come up with this? I'm still confused, how we decided. Because in essence, to a certain degree we're picking winners and losers. And I hate to use that term, but that's what taxing is. So how did we decide which ones we were going to continue that tax exemption and which ones going forward...you know what, we thought it was valid in the past, but going forward we don't think it is. And so, was there a common theme that you looked for? Was there a...did you look at each one specifically and say, how does it fit within the economy? How did you determine specifically how each...I mean, we could go through the list. I don't think we need to do that. We're going to be here long enough the way it is. But I just want to know what your general philosophy was when you chose which ones to keep and which ones to eliminate as far as tax exemptions. [LB405]

SENATOR McCOY: Sure. Well, a couple of things I would say, Senator Harr, and first off, the Tax Commissioner, Doug Ewald, will be behind me here in a little bit and he can probably speak more expertly to that. But in my analysis of what you're asking, when you look at those sales tax exemptions where we exempt \$5 billion, there's some that are gigantic numbers and there's some that are much smaller. And so, when you look at if you're going to determine that it is worthwhile, and I believe that it is, to totally eliminate the income tax, and on the personal and corporate side, then there you have to get to a number in some way. And again, there are some of these exemptions that are much larger than others for obvious and good reasons. So that all went into the thought process as this legislation was put together. But as I've said, when you have a discussion and a conversation like this, it is very much a work in progress because we haven't done this in 50 years. And so, again, I think all of these exemptions should be looked at to see which ones are more important than others. Again, I think they probably all have valid and worthwhile purposes, otherwise they wouldn't be here. Somebody thought they were worthwhile at one point or another or still do. So that would be my answer to what you're asking, but again, I'm sure there's others behind me that you can ask that question to as well. [LB405]

SENATOR HARR: Okay. I appreciate that. That's a nice answer. And let's leave on a nice note. This is...there were accusations on the floor earlier that this is a peacock bill, that you had no real intention of passing this bill. You want to eliminate the income tax. Is that correct? [LB405]

SENATOR McCOY: Oh, I do. I want tax reform and I'm willing to look at a lot of different options to get there. As I said, Senator Harr, this is an important issue to me. It's

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consuming a great deal of my time, my staff's time, and it's because it's for a worthwhile purpose. We...I want the best opportunities not just for my four kids going forward but for your kids and all Nebraskans. [LB405]

SENATOR HARR: Yeah, I appreciate that. And so what I'm trying to get, but your ultimate goal is you want zero income tax. If you had your druthers, you have LB405, you have LB406: one has a different...still has the income tax; the other totally eliminates it. If you had your druthers and you had your way, you would want the elimination. And it's not a bad thing. But your goal is to eliminate...the ultimate goal is the elimination of the income tax. Is that a fair statement? [LB405]

SENATOR McCOY: That's the purpose of LB405, Senator Harr, but as I said, when you look at substantive...what substantive tax reform could be...I got a call yesterday in my office from a gentleman who is a constituent in our district that farms. He was, he told me, driving down the road and wanted to call and share with me what his thoughts were. And he had some great ideas on what substantive tax reform could look like. And that's what I believe that I'm here to do today is to listen, because my guess would be that there's going to be a lot of thoughts on not only what the green copy, the introduced copy, of LB405 is, but my guess would be, as I intend to take plenty of notes today, some great ideas on how do we put our state best forward into this century. And at the end of the day, my suspicion would be that we'll...Nebraskans will shine like we always do in figuring this out in our own way, whatever that is. [LB405]

SENATOR HARR: That's great. Okay. Thank you very much. I appreciate your time. [LB405]

SENATOR HADLEY: We've been joined by Senator Janssen from Fremont. Just so you know, the senators...we have other committees that are meeting right now so it's very possible that if a senator gets up and leaves, it's not because they don't like you. They're going someplace else to testify on a bill. (Laughter) The second thing is, in a previous life, I always said there were three ways to become a dictator: take over a ship, captain of the ship, take over a country, or be a professor. There's a fourth way, be a chairman of a committee. (Laughter) So we will keep all applause...none. No cheering. If you want to cheer, please just get up, walk out the west doors, holler as loud as you want, come in, sit down again, and then we'll get on with the committee work. (Laughter) Okay. Are there any other questions for Senator McCoy? Senator Schumacher. [LB405]

SENATOR SCHUMACHER: Thank you, Chairman Hadley. And thank you, Senator McCoy, for bringing this discussion to us. Based upon your initial comments, I've got three lines of questions. The first is with respect to the comment that our children are leaving. And I seem to recall back in about 1970 getting assigned, when I was a student at Platte College in Columbus, with me and my debate partner to come down and interview then Governor-elect Exon. And I distinctly remember a question we gave him

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and the answer he gave us. And this was a time when the income tax just barely had been passed and we were addressing a problem that was longstanding, a problem that we had dropped in Congressional seats from five to four of them, I think. I think the drop to three maybe came later. But we were losing population respective to the rest of the states. We were losing it for some reason. And we asked then Governor-elect Exon what was he going to do about the brain drain. And his response was, no problem with brain drain. When the other states fill up, they'll come back. (Laughter) My question to you is, why then were we brain draining, and now we're brain draining because supposedly of the income tax? What evidence do you have that our young people check the Tax Foundation reports or check the income tax rates when they decide whether to brain drain? [LB405]

SENATOR McCOY: Well, I appreciate the question, Senator Schumacher, and I believe what I actually said was that I don't believe that we're doing...in keeping our young people here in Nebraska, I don't believe that we're doing as well as we could or should, because I think there's always room for improvement. I just refuse to believe the premise, and I'm not by the way saying this is the premise you're offering up, but I just refuse to believe the premise that we're as good as we're ever going to be in our state. I think we can always have room for improvement. And I think when you're speaking of what Governor Exon may have been referring to, it's my understanding of the census data that we are and always have been...I think maybe we heard some of the same testimony last week in previous bills in this committee as I recall, that our population growth has been on the climb over the last number of decades but at a slower rate than other states across the country, which in turn has contributed to the fact in our loss of Congressional seats, decade by decade. So I think that we can always do better in keeping our young people here and our retirees here and, for that matter, our workers and hardworking Nebraskans in between being young and being retired. [LB405]

SENATOR SCHUMACHER: But the question basically was, what correlation is there between the leaving of our young people and an income tax? [LB405]

SENATOR McCOY: I didn't say that there was a correlation, Senator Schumacher. [LB405]

SENATOR SCHUMACHER: Okay. Thank you. Second line of questioning as we go through here, what distinguishes a modern tax system from a not so modern tax system? What are we...when we're on our hunt now for the modern tax system, what are we looking for? What...how do we know when we find that animal that that's it? What's the elements of it? [LB405]

SENATOR McCOY: Well, I'd say to start that we'd be looking because it's been almost 50 years since we were looking. And I think that a, by definition, a modern tax system would be one that we're...that is dynamic, that we're looking at on a, if not constant

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basis, a frequent basis, and I guess it's my belief that we probably could be doing better at that than we are as a state. You know, it's been a long time, as I said, since we've had a overarching tax reform discussion in our state. So by definition I would say modern would be one that we look at on an often basis. I would say in your business, in my business, what I do in small business outside the Legislature, if I didn't look at how I'm doing things any more often than 50 years, I dare say it would hard to be competitive, not just with the peers that I deal with in the business world, but how would I be able to address the needs of consumers if I didn't address things on a fairly frequent basis. So by definition, that's what I think a modern tax system would be is one that we're looking at on a more frequent basis than every 40 or 50 years. [LB405]

SENATOR SCHUMACHER: How many bills would you guess has been introduced in the Legislature in the last 40 or 50 years regarding taxes and tax policy? [LB405]

SENATOR McCOY: Oh, I dare say there's been quite a few, Senator Schumacher. [LB405]

SENATOR SCHUMACHER: So we kind of have been looking at it a bit. [LB405]

SENATOR McCOY: Well, but I think that when you look at individual parts and components of our tax system, that doesn't necessarily mean that we're looking at the overarching discussion of tax reform in our state. We might be looking at tax cuts. It might be in...many sales tax exemptions, whatever the case may be. I would imagine it...probably the bills would probably number in the hundreds, if not thousands. But I don't know that they would do what I believe we ought to do and that is have a very heart-to-heart, thorough discussion and conversation about where do we want to go as a state from here forward. [LB405]

SENATOR SCHUMACHER: Third line of questioning moving across the flow chart, you commented that this particular movement in Nebraska can be differentiated from the efforts in other states, and I think the most headlines in other states have become from states with Republican governors trying to bring about change. Can you make that differentiation for me in philosophy in what's trying to be accomplished here? How is it different from what is going on in these other states? [LB405]

SENATOR McCOY: Well, first off, I'd say that I think as we all know since you and I and all of us here at the table are members of a very special body that's unique in and of itself in the country, we do things differently in Nebraska. I think we do it the Nebraska way. We do it with civility. We do it with a lot of thought. I think we've handled that in a number of issues that...and I touched on that we've dealt with in the Legislature that turned into be very contentious in other states across the country. When I look at...and I'm certainly by no means an expert, Senator, in what other states are doing currently across the country, but I peruse the news, much as you do. And when I look at what

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states like Louisiana and North Carolina, our neighboring state of Kansas, all of those states are going about tax reform and in some it may just be tax cuts, whether it be New Mexico, Indiana, Ohio. There's a number of states are all looking at different ways. They're all addressing what's going on in their state in their own way. But I've heard comparisons of, well, what we're doing, what we're proposing here is just the same as what's going on in other states. It's not. They, in various states, they're proposing to raise the sales tax rate, put sales tax on services. You know, even our neighboring state of Kansas is looking at getting rid of the mortgage interest exemption. I mean, it's a...it's a mixed bag across the country, Senator, on what other states are doing. I think what we're proposing is unique to our state as it well should be. [LB405]

SENATOR SCHUMACHER: Would it be fair to say that the common element is a reduction or elimination of the income tax? [LB405]

SENATOR McCOY: No, I wouldn't say that at all. I think that would be too general, Senator. When you look across what I see what other states are doing, no, I don't see that at all. It is in some states, but certainly not in all the states that are...whether it be this year or last year, or even some states are talking about in future legislative sessions, some that may only meet every other year. I think they're all going about it in a different way, but I don't see any particular move towards the elimination of income tax in every one of those states by any means. [LB405]

SENATOR SCHUMACHER: And when we say every one of those states, we're talking about half a dozen or so states in which Republican governors have taken the initiative on tax reform? [LB405]

SENATOR McCOY: Again, Senator, I'm not an expert in what states you're talking about but...when you say half a dozen. But all I can look at and go over is the ones I mentioned to you. [LB405]

SENATOR SCHUMACHER: Thank you, Senator McCoy. [LB405]

SENATOR HADLEY: Senator Sullivan. [LB405]

SENATOR SULLIVAN: Thank you, Senator Hadley. Senator McCoy, I have just one more question since we were talking about it's been 50 years since we've had the conversation. And while I was around 50 years ago, I was quite young actually, (laughter) but if memory serves me correctly, that conversation resulted in state income tax and sales tax for the first time, and previous to that it was property tax being levied both at the state and local levels. So in this whole conversation, shouldn't property taxes be considered in the conversation? [LB405]

SENATOR McCOY: Oh, absolutely, and that's why I mentioned that earlier. I think that

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following behind me, you'll have Senator Ashford who will speak in a moment. And Senator Ashford, I think, has a unique perspective and that's why I very much enjoy him being a part of this discussion, Senator Sullivan, is because Senator Ashford was there to be a part of that discussion then. And I think he has and will share with you a unique perspective on that. But I would agree with you very much that property taxes are a big burden for Nebraskans. And I would dare say that's a burden that is shared by Nebraskans whether you live in Omaha or you live in Scottsbluff or at any point in between, whether you're involved in agriculture or you're not. And I think to truly have tax reform, that's got to be part of the discussion. It's not in the green copy of the bill that we're talking about, LB405, today. It's not easy. None of this conversation is easy, but it's not simple to address that at the state level. It can be done. And I think that it should be and will be, I hope, part of the continued discussion on what does tax reform for the next 40 or 50 years look like. But I think Senator Ashford will be able to speak to what you just talked about what happened in 1967, and at several points in the chronological time line since that day. [LB405]

SENATOR SULLIVAN: Thank you. [LB405]

SENATOR HADLEY: Senator McCoy, I guess I have a quick question. You used, I think...I don't want to misquote but you talk about a modern tax system. If I were to talk...think about the difference between 1967 and today, the biggest change in our economy is probably the service industry has gone from a very small part of the Nebraska economy to a very significant part of the Nebraska economy. I've heard upwards of 50, 60 percent of our economy now is based in the service industries, yet that's a part that you haven't touched in on your bill at all. So if you want a modern tax system, how do you preclude looking at the one item that has changed the most since the day we instituted the sales tax and the income tax? [LB405]

SENATOR McCOY: Well, my answer to that, Senator Hadley, would be that it's not a part of the green copy of LB405, but I think if there are those that feel that it's valid, I'm not opposed to looking at that. I think that if you're going...if you would take the additional revenue that would be generated through taxes on services, and that was directly put back to tax reform like we're talking about, then that's...that's definitely a worthwhile part of the discussion. If that money were just to be out there to be used for any various and sundry projects or program, and it didn't end up being put back to hardworking Nebraskans in the form of tax reform, then I would probably have some concerns about that. [LB405]

SENATOR HADLEY: Okay. Thank you. Senator Pirsch. [LB405]

SENATOR PIRSCH: Yes, and I appreciate the bill coming forward. It's a 135-page bill, so I'm trying to wrap my arms around it, well, in this green copy at least, which you say is the starting point, what exactly the components are. I think in your opening you may

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have...and I may have misheard but I thought you mentioned 27 individual categories of exemptions that would be eliminated then? [LB405]

SENATOR McCOY: Well, some, Senator Pirsch, are somewhat nested under others, but there's give or take, how you want to define some of them, essentially 84. And I believe, unless I've miscounted, I believe it's 27 that we've touched on in the green copy of the bill. But again, the Tax Commissioner will be following behind me. If I have that number wrong, I'm sure he will be happy to correct me, but as I recall that's the number. [LB405]

SENATOR PIRSCH: Twenty-seven. Okay. And there was...maybe legal counsel came out with some brackets of their own, had a 39. You mentioned the number, 84 categories. I believe that is a...based on the report that was put out, right, in response...a listing of exemptions that, I think was based on LB19...I'm sorry, LB962 in the 2012 Session which required the Department of Revenue to group sales tax expenditures by categories and show exemptions. Is that the 84 that you were referring to? [LB405]

SENATOR McCOY: Yes, I believe so. And again, I believe that's the correct number, Senator Pirsch. That one would be Senator Pahls, would have been one of Senator Pahls bills from last session as I recall. If that number...I defer to the Tax Commissioner to...if that number is off by a little bit. But as I recall, that's the correct number. [LB405]

SENATOR PIRSCH: Yeah, and among the 27 categories or the 39 categories, depending how you look at it, are there...and I think you rightly point out they're not all equal in terms of dollar values. You go as you look into add up to the \$2.5 billion to get the requisite amount to eliminate the individual corporate income taxes. Are there, in terms of getting a flavor for those, are there...can you give me like an example of what they...I mean, is there a grouping at the higher level, the lower level, or are they all pretty disperse in terms of the 27 that you identify? Or do any, for instance, three compose a great majority of the monies you're looking for? [LB405]

SENATOR McCOY: Well, one, and I'm sure Tax Commissioner Ewald will probably talk about this as well, but the largest one, I believe, is \$1.4 billion and that's for ag manufacturing components. And housed within that category though, Senator, are a great many things, as you might imagine, with a number that's that large. So, there's a lot that goes into some of these sales tax exemptions as far as how broad they are and there are some that are very specific. You know, I'm just...one I can think of would be molds and dyes for manufacturing. That's a very important exemption for some companies in our state that I've heard from and I'm sure probably some of you have as well. But, so some are more specific than others. Some are pretty broad categories...or, you know, categories and turn out to be much larger numbers. It's very diverse as you might imagine. It's about as diverse as our economy is across the state. [LB405]

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SENATOR PIRSCH: Yeah. Did you know, is there any other that exceeds kind of that one billion mark or is everything else...you mentioned one, but is... [LB405]

SENATOR McCOY: Well, you have sale for resale and there's some others that are fairly large numbers. But as I recall off the top of my head, that the largest one, I believe, is the ag and manufacturing components exemption, Senator. [LB405]

SENATOR HADLEY: Any further questions? Senator Harr. [LB405]

SENATOR HARR: Thank you, Chairman Hadley. I just want to follow up. So, we've had a lot of conversation that we need to have a conversation and look at where we want taxes to go and have a comprehensive look. And I know there have been meetings that have been occurring since last summer on this issue, and none of us at this table have been included on those conversations. We're here today to talk about it. We talk about the service industry, should they or shouldn't they be included? If not in LB405, you say, that should be part of the conversation. And I agree with that; that should be part of the conversation. My question is, where is this conversation going to take place and what form should it take? Meaning, we have a piece of legislation here today and it seems to me from your conversation, you say it's not written in stone, or from your comments, it's not written in stone, and that we need to look at what works, what doesn't work, how are we adjusting this, what should we keep, what shouldn't we keep. Is it your contention that we as a committee should sit down and talk it over with ourselves? Should we have public hearings across the state? Should we be meeting with the Governor? How would you see this conversation going forward? If we were to have comprehensive tax reform I think, I mean, let's be honest, income tax is something that affects every single taxpayer in Nebraska. So I think we need to have an opportunity for everyone to have a chance to talk about this. And so my question is, how do you see this conversation going forward? [LB405]

SENATOR McCOY: Well, I don't want to be presumptuous, Senator Harr. As Chair of the committee, while this is an important discussion I believe, you know every bill that we introduce in the Legislature is important, just as, I think, every one of us that's a member of the Legislature is important, as is every citizen across the state. [LB405]

SENATOR HARR: And I would agree with that. [LB405]

SENATOR McCOY: So in regards to how do I see this going forward, you know we have...this is the first step of that because as Chairman Hadley mentioned at the start of the committee, and I know you see in here the same as I do, in my tenure here in the Legislature I've gotten to know a good number of state legislators from all over the country and there are only a few states, and we're one of them, across the country that every single piece of legislation that's introduced gets a public hearing like we're sitting

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in today. And I think that is the fundamental and very healthy first step in this process. I think where we go from here is somewhat dependent upon what the committee, that we're all a part of, sees us going forward with. Obviously, the Chairman has a lot to do with that. I think that...thank goodness for technology because my guess is there's a lot of Nebraskans that are watching this hearing today, or listening to it across the state, that would have 50 years ago been much more difficult than what it is today. I think, Senator, that it's healthy when you have a discussion, a conversation, and you deal with an issue like this that you hear from as many Nebraskans as possible, from as many different industries and ways and walks of life that we have in our state, because an issue like this of tax reform is going to affect different Nebraskans in different ways. We'll probably hear a lot of that today. [LB405]

SENATOR HARR: Yes. [LB405]

SENATOR McCOY: And I think that to any degree possible that we can get Nebraskans, and I'm sure we will, to weigh in on this, to decide how do we want our state, what do we want our state to look like a generation from now. How can we make it better this generation? I think it's healthy and I think we all want to participate in that and I think we'll all, along with all Nebraskans, will help make that decision. [LB405]

SENATOR HARR: And I agree with you. And this is...and just tell me this is transformational what we're looking at doing. Some would call it bold, and we haven't done this in 50 years. And nobody saw this or knew what was in this bill until three weeks ago maybe. And all of us have jobs. And some of our jobs are busier at certain times of the year than others. And so I guess my question though is, and I still don't know and I'm still curious is, what is the next step? Is it...are we going to have meetings across the state so that people...is it your hope that people write in? Is it your hope that they e-mail, phone, and then who has the...then we have a dialogue. We have all this information. Is there a dialogue or is it a monologue, them coming straight at us, or do we have a conversation back with them? Or do we...and do we include the Governor? I think we have to. I think we should. I think that's right. I think anytime you have a monumental bill such as proposed in LB405, I think it's important that these two branches have a say, and we finally have our say on this. But I'm not quite sure what the next step is. I mean, we have a roomful of people, testifiers today. We have an overflow room. As you say, there are people watching us across the state. And I'm still not sure where the dialogue comes in. I see a lot of monologue. I see a lot of people talking at us and I see a lot of us talking at them other than today. Today is the only chance and tomorrow that we're going to have a chance to have a dialogue. And is that your contention that it should be limited to today or tomorrow for dialogue as a (inaudible) or do you see a next step where we do something different than other piece of legislation, because as you admit, this is transformational, 50 years. I think this deserves to be treated...while every bill is special, some are more special than others. And so I'm just trying to figure out where you think our pathway forward is, especially

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considering nothing is written in stone, and we all realize that we need to measure the importance of each tax exemption or proposed nontax exemption. And so, I'm still trying to...and I don't feel like I have an answer and maybe that's me. Maybe I'm not very bright, but I'm trying to figure out how we can come together. [LB405]

SENATOR McCOY: There's a lot there, Senator, I mean, let me try... [LB405]

SENATOR HARR: I know, I'm sorry. [LB405]

SENATOR McCOY: Let me try to answer that as best I can. I'll go back to, unlike any other state in the United States, the people of Nebraska are the second house of our Legislature. And I don't know, while I am the introducer and Senator Ashford is the primary cosponsor of this legislation, LB405, and tomorrow LB406, while I am the introducer, I don't feel that it's my place to determine whether this is more special than any other bill or not. I don't...I think this topic is very important and it's a special topic, but it's not up to me to determine whether or not it's a extra-special bill. The process that we have in the Legislature, as you well know, is that we have a public hearing on every bill. How we...where we go and how we go, how we do it from here forward I think is probably up to our committee, up to our Chairman, up to our Speaker, and up to the Legislature, and up to the people of Nebraska. I think that any feedback, a two-way street of communication, I know I've done my best and I think my staff has done an amazing job of trying to answer as many phone calls, talked to people as much as we could. I've tried to talk to as many people I could, personally responded to as many e-mails as I possibly can, bump into people in the hallways, see them at church, as I said, with a good friend of ours at church that works in an implement dealership. That interaction, as you said, Senator, is critically important especially on a topic like this. That is why the people of the Nebraska are the second house of the Unicameral. That's why George Norris set this process up. I think it's healthy and it's something as I said, legislators I talk to across the country marvel at how we handle thorny, difficult, sometimes seemingly impossible topics. We find a way to sort them out. You know, and in a minute, Senator Ashford is going to be up here to speak and he and his, I think, 15th year in the Legislature, has been a part of a lot of those very thorny issues. And that's why I'm proud to have him a part of this one because you, I don't think, go into this process...and I don't want to speak for the Governor and I don't want to speak for Senator Ashford, but I'll just say this personally. I don't think you go into a bill like this, a discussion like this, a topic like this, and believe that you have all the answers. Far from it. I think we're going to hear plenty of discussion today and tomorrow and on into the future of folks that have good ideas of where we could go and some very definite opinions about where we maybe shouldn't go. And that's what, I think, we need to hear because it's going to be us and our kids and our grandkids that will be here to deal with the fallout of what we put together, or don't put together, going forward with state government in our state. So that process going forward, Senator, you know, I wouldn't want to rule anything out as far as how we handle this. I think maybe any or all of the

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suggestions that you mentioned, or ideas that you mentioned, may have real value. [LB405]

SENATOR HARR: So, and I agree with you, and I appreciate that answer. So if we talk about professional services being taxed, is that a separate bill? Is that part of this bill because they're not here? Are we going to have a problem with that because we're amending LB405? Is that too large of an amendment? [LB405]

SENATOR McCOY: Well, Senator, that what you're speaking of is not part of LB405 today, so it wasn't something I touched on in my testimony. Do I think that, when you look at what tax reform should look like for Nebraska, should services be part of that overarching discussion? Yes, specifically what you're referring to there, it's not a part of LB405. Does it need to be part of the process? That...I think we need to be looking at everything. [LB405]

SENATOR HARR: And that's the question I have, I guess, is that if we do look at everything we're not...I mean, we're looking at a specific bill right now. And let's say down the road we decide to tax professional services for whatever reason. We hate lawyers, so we tax professional services. Lawyers aren't going to have a chance to have come in and have a public testimony because this is the only time today that we're going to have public conversation on this. And so, all of a sudden, like, wait, wait, whoa, whoa, and we say, sorry, that train left the station back on February 6. So how do we...if this isn't written in stone, and we start to decide to tax new items that aren't taxed in LB405 or LB406, how do we have that discourse? [LB405]

SENATOR McCOY: Well, I don't want to ask direct questions to you because that would kind of violate the rules of the road as such as they are, Senator, but I'll ask it rhetorically. I know you are an attorney so at some point I'd love to have that conversation with you. [LB405]

SENATOR HARR: And not a very good one. (Laughter) [LB405]

SENATOR McCOY: I don't know that right now might be the best format for that, but I would imagine that you may have some thoughts on that...on that topic and perhaps we'll get a chance to... [LB405]

SENATOR HARR: But I'm not an accountant, so what do I do about that? We don't have an accountant on the... [LB405]

SENATOR McCOY: I'm sorry, what? [LB405]

SENATOR HARR: I'm not an accountant. We don't have an accountant here. That's a professional service. There are a lot of professional services. (Laughter) [LB405]

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SENATOR McCOY: That there are. [LB405]

SENATOR HARR: Some more than others. (Laughter) That's what I was thinking. The oldest profession, professors. But that is a question of how do we...so if we do change this and we do introduce ideas that weren't in the bill now, are we going to deprive those people? Are we going to have a special...do you think we should have a special hearing down the road if all of a sudden we introduce new ideas of taxation? [LB405]

SENATOR McCOY: Well, again, Senator, I think it's hard for me to deal with...and I know where you're going. I think it's hard for me to deal with what I think is somewhat of a hypothetical. We don't really know... [LB405]

SENATOR HARR: It is, and I apologize, but I'm trying to figure... [LB405]

SENATOR McCOY: No, I understand. I don't think we really know. I think that when you're talking about taxes, I think that there are many things that would be germane to that discussion. Now, it's really not up to me. It would, again, be up to the Chairman and probably to the Speaker to determine, do you go down an area that suddenly it becomes not as germane and does it require some sort of other steps down the process. You know, I wouldn't want to rule out any public interaction on anything that we talk about because, you know, I've tried to do my best in my time in the Legislature to work on things that I think are oftentimes issues that we can all agree on and that is transparency, you know, the public being involved and having access and input. Because not only do I think that's beneficial, but I think it's the way that our system works best. So, it's hard for me to answer directly the hypothetical you're referring to, but I think that, you know, this is such a discussion that you probably have a lot of options that are on the table as far as where do we go from here, how is the public best involved? There's a lot of Nebraskans that are here today that I think are looking forward and are probably anxious to get their public ability to voice their thoughts on this legislation. [LB405]

SENATOR HARR: Thank you, and I want to thank you for being open. I've enjoyed our conversation, so thank you. [LB405]

SENATOR HADLEY: Any other questions? Seeing none, thank you, Senator McCoy. [LB405]

SENATOR McCOY: Thank you, Chairman. [LB405]

SENATOR HADLEY: Senator Ashford, I believe you're next. [LB405]

SENATOR ASHFORD: Thank you, Mr. Chairman. I'm going to put these prepared

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remarks over here and see if we can chat about some of the questions that were asked. First of all, my name is Brad Ashford. I represent Legislative District 20. And let me talk about a few things that move me on this bill. First of all, in 1967...I don't include Senator Sullivan in this because she was too young, but Senator Hansen was definitely around at that time and, my goodness, Senator Hadley, for goodness sakes, was there, and Senator Schumacher, none of the others. But I was 17 so I appreciate Senator McCoy giving me all those accolades. I did have the opportunity to serve...did an internship in 1969, actually working with...in Senator Batchelder's office and that was very exciting, because Senator Batchelder and Senator Tiemann...or Governor Tiemann did not get along. But I did have an opportunity--as Senator Schumacher remembers--but I did have an opportunity to get into this tax bill. Let me tell you why I think this needs to be...and Senator Harr, I think you've asked some good questions about process. Let me tell you why I think this is the year to get deeply into this issue, and based on my experience, and that is...why did I jump on this bill and I'd be happy if someone wants to be the primary, secondary introducer. I'd be happy to have them on board, but let me tell you why I got on board this. The three major tax bills that I've been involved in, one is just very...in a very cursory manner was in the 1967, '68, '69 time frame. The reason we did tax reform then, and Senator Sullivan is exactly right. We did it to address the issue of property tax and in those days we had a head tax, actually everybody paid something for their head, and then we had a...and then we had a...your refrigerators were taxed and all those things. It was a very difficult tax system and it was not modern by any calculation, so, but it was successful in one year. At least the...and to Senator Schumacher's point, there were a number of bills that came after the '67 bill law that...in fact, in '65 there had been a vote, I believe, on income tax and the voters voted it down. And Governor Tiemann had the temerity to then propose it to the Legislature, so that was pretty interesting. But you had a Governor...and he was successful. So a Governor was moving that issue. In 1987, the first year that I served in the Legislature, Vard Johnson, who was the Revenue Chair at that time, I think he would be proud if I said a very liberal Omaha Senator, and Governor Kay Orr worked together to come up with LB775 and LB772. It was successful in one year, in one legislative session. And the reason it was successful, I think, is because you had...number one, you had a crisis, and I think it was an identifiable one. We'd come out of the farm crisis and during Governor Kerrey's time, we'd come out of the farm crisis and on top of that, we were...there was, I think, very real threats that we would lose many of our corporate headquarters companies. So it has sort of a combined problem. And Governor Orr decided, we're going to do something about this and she, in the same time frame in the summer, got together with Senator Vard (Johnson) and they came up with LB775 and LB772. LB772 was the income tax bill that basically we use to...our state income tax was tied to the federal liability, so if your liability to the federal was \$10,000 or \$5,000, your state tax was based on a percentage. Isn't that right, Senator...or I believe that's correct. So, LB772 untied that knot, so to say. And LB775 created what has become legendary legislation to, you know, to incent businesses to grow in Nebraska and it worked. It worked. Those businesses did stay here and agriculture did begin to thrive. It

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did begin to thrive after the Kerrey time and into the Kay Orr time. Agriculture did begin to thrive, production increased, and the economy did do better. Obviously, we had the 2001 time frame. We did not do anything in 2001. We had to raise revenues and so real tax reform during the Johanns time was exceedingly difficult. But what made those two bills very synonymous with today is, we now have...and why I got so excited about this when the Governor contacted me is because we have a Governor that's willing to take this on. And I can tell you, in 1987, and many in this room...now Loran Schmit told me he got rid of personal property tax in 1976, so that was another great event, Senator Schmit, in the history of Nebraska, so I should have said that right at the beginning. But we have an opportunity now, I think, that is analogous to the opportunity we had in '67 and the opportunity we had in 1987 to do something really significant here and because we have a Governor that's willing to take this on. It does not happen very often that a Governor will do this. We have a committee, and just to talk to the committee a little bit, Senator Harr, you have a staff member here on this committee who helped write LB775. And you have a staffer here, is not really...I mean, he's a genius when it comes to doing tax legislation, Bill Lock, and he was involved in also LB772. So, the resources are here, the resources are here to do significant legislation. And when Governor Tiemann...and I remember working with Governor Tiemann in Washington and I'd say, Governor, why don't you ever...can you come back...why don't you come back to Nebraska, for heaven's sakes? I mean, we want you back in Nebraska, go back to Wausa and run for something. And he said, are you kidding me? He said, you know I raised taxes and so nobody my age is going to vote for me, and all the kids that we got...we funded the university for the first time in any appreciable way, they're all gone. You know, they've all moved, so they forgot about me already. So, I mean, I think Governors that take these things on...and Kay Orr, quite frankly, did a magnificent job with Vard Johnson. Kay Orr was not reelected and she was not reelected...it wasn't the snow in the western part of the state. The reason she was not reelected is because when she changed the tax law, she, you know, at the very beginning inadvertently, much more revenue came in than what had been expected. So, Ben hit her on it, and he was successful, and Ben got elected. And it was over taxes. So, when this Governor says to me, Brad, we got to do something about taxes because it's out of balance when you have \$5 billion worth of exemptions and \$1.8 billion worth of taxable sales, that's out of whack. That's why property taxes are too high and that's why income taxes are too high, because in all the good work this Legislature has done over the years in incenting businesses to grow, in all those years we have to a certain extent forgot the individual taxpayer. I don't think we...nobody is against the individual taxpayer and nobody supports a bill that's going to intentionally raise taxes on, you know, the common Nebraska person who pays taxes, but that's what has happened. When Kay Orr did LB772 with Vard Johnson, our income tax, and I may be a little bit off, was 9 percent. And when we passed LB772, the income tax rate at the highest rate, I think, went down to 5.9 percent. So, I mean, you know...but, inadvertently, there was an increase in revenue and so forth, as I mentioned, that was inadvertent. So I think, I think this bill, this bill of taking exemptions...this is only...this is half, \$2.3 billion or \$4 billion is about half of the

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exemptions, not including services. And services is probably another \$2 billion to \$3 billion. I'm not sure of the exact number. We have not...and in all the years I've been here, we've always tried to think of a way...once in a while, certainly Rich Pahls, and if he hadn't gotten sick, probably would have done more with it because he really did a great job of thinking about this issue. Back in 1986, the year that I was campaigning for the Legislature and by the grace of God I got elected because, Senator Hadley, I mean, can you imagine getting elected, you know, me getting elected to the Legislature in 1986? But anyway, the issue, the issue in 1986 was taxes. The issue in 1986 was taxes and at that time there was what was called the Syracuse study. And actually, we talked about the Syracuse study for years and years and years after that because what it said was, your income tax is too high and you exempt too many sales. Well, it doesn't take rocket science to realize that your income tax and your property tax is going to go up if you rely...you know, if you don't...if you "underrely" on what is the most...and whoever asked the question, you're absolutely right on services, I think it was Senator Hadley, 50 percent of our economy is in services and 18 percent of our national economy is healthcare. And in 1987 it was not 18 percent, it was not 18 percent. So, we have to think about what is the environment today, where is our economy going today and what is a fair and balanced way to raise revenues. Because the problem in Nebraska, I don't believe, is not that we have good people or not that we have businesses that are willing to hire people. We have full employment basically. The problem in Nebraska is we need higher salaries, we need a better way to train people who are not getting properly trained so they can take manufacturing jobs. We have lots of infrastructure issues that we need to address. It's not all about taxes, certainly, to your point, Paul, that you or Senator Schumacher asked. It's not all about taxes. There are gobs of other concerns we have to address. But the reason I'm here is because we had...this is not a new issue, Senator Harr. This was an issue brought to the Legislature in 1986. This is an issue we can solve in one year and, of course, we have to involve the people of the state. And if we do address services, like we did in the CIR bill, then I'm sure the Chairman would be agreeable to having another hearing on service tax. But I think you guys are perfectly capable and beyond capable of coming up with a fair and balanced tax code that will respond to the different economic conditions. And The Wall Street Journal, I guess I just conclude by saying, you know, The Wall Street Journal had an article and I'm sure we all saw it last week that talked about 60 percent of the job growth in the country is in the nine states that don't have an income tax. Is that an...can you then make the comparison to Nebraska? I think you have to think about it. I mean, it at least creates a marker in the debate to say, is the job growth in this country going to occur in states that do not have an income tax or have a very low income tax? You have to at least think about that question, I think, I respectfully request, and then what implication does that have? So a state like Nebraska, which has 1.7 million people, that has high infrastructure costs, that has high education costs, we have...we need to keep our high-end taxpayers here. So is it invalid to say that people are leaving the state because of the high income tax? No, because practically all of my friends that I have that have been successful in business have left or are leaving the state. Now, does that

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mean everybody? Does that mean more than 3 percent? I have no idea, but I know there's a lot of capital, and we all know that. We all have friends that are in that...at least our age, friends that are in that place, and I think we have to...and then, so I would just respectfully request this committee to look at this a little maybe differently than saying, well, this is really a lot of big deal. It is a big deal. It's a huge deal, but it can be done in one year because you have a Governor that's willing to have the...not only have the conversation but support major tax reform, like Governor Tiemann, like Governor Orr, and neither of them got reelected. None of them got...neither of them got reelected. This is not a happy thing to do necessarily. You have two rooms full of people telling you, you're crazy. But in 1967, I'll tell you, Governor Tiemann didn't have a friend in this state when he introduced that bill, but it passed. So, with that, I respectfully urge the body to come up with something that will work for the state and let's get it done this year. [LB405]

SENATOR HADLEY: Questions for Senator Ashford? Senator Sullivan. [LB405]

SENATOR SULLIVAN: Thank you, Senator Hadley. Thank you, Senator Ashford. You always give us a lot to think about. The Syracuse study said that we were heavy on income tax. Didn't they also say we were heavy on property tax too? [LB405]

SENATOR ASHFORD: Property and income...we're way too heavy on property and income tax. [LB405]

SENATOR SULLIVAN: Uh-huh. Uh-huh. [LB405]

SENATOR ASHFORD: And we were "underrelying" on sales tax. There was an "underreliance" on sales tax revenues. [LB405]

SENATOR SULLIVAN: Okay. And then you said with the passage of LB775, that was a response to a crisis regarding 1967 when the state instigated a sales tax and income tax. That wasn't necessarily a conversation that took place in one year. It actually started many, many years before that, didn't it? [LB405]

SENATOR ASHFORD: Just sort of...yes, like this one. I mean, the exempt... [LB405]

SENATOR SULLIVAN: But it didn't happen in...I mean, the conversation started... [LB405]

SENATOR ASHFORD: It did happen in one year. [LB405]

SENATOR SULLIVAN: But the conversation had started quite a few years before. [LB405]

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SENATOR ASHFORD: Well, probably after World War II, but I mean, right after World War II, but I would argue that the conversation on exemptions has been going on since I've been in the Legislature. I mean, I don't think this is a new conversation that we're having here. But I get your point, but the bill that Governor Tiemann, that was introduced for Governor Tiemann in '67 was passed in '67. [LB405]

SENATOR SULLIVAN: Okay. Thank you. [LB405]

SENATOR HADLEY: Senator Ashford, the Burling study, was that done during your time here? [LB405]

SENATOR ASHFORD: Yes...or later. I think later. [LB405]

SENATOR HADLEY: I think it's like three years ago, four or five years ago...four or five years ago? [LB405]

SENATOR ASHFORD: Yeah, later. Oh, the current one? [LB405]

SENATOR HADLEY: Yeah, the Burling... [LB405]

SENATOR ASHFORD: Oh, the current one was completed the year we all came... [LB405]

SENATOR HADLEY: '07? [LB405]

SENATOR ASHFORD: ...when you and I came into... [LB405]

SENATOR HADLEY: '07. [LB405]

SENATOR ASHFORD: Yeah. [LB405]

SENATOR HADLEY: So we've had three studies. We've had McClelland, Syracuse, and Burling. [LB405]

SENATOR ASHFORD: Right. [LB405]

SENATOR HADLEY: We studied the system. [LB405]

SENATOR ASHFORD: Right. [LB405]

SENATOR HADLEY: Why hasn't anything happened after we studied the system? [LB405]

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SENATOR ASHFORD: I don't know. I wasn't on the Revenue Committee. I have no idea. [LB405]

SENATOR HADLEY: Well, because... [LB405]

SENATOR ASHFORD: No, I think...(laugh). [LB405]

SENATOR HADLEY: ...because I think Senator Burling did do quite an in-depth study. The Syracuse study was a very expensive study to... [LB405]

SENATOR ASHFORD: Right. The Syracuse study was sort of the pathway for years and years and years. And I don't want to be flippant about it. I mean I think you have to have a Governor and a Legislature willing to take this on. I don't think it works very effectively to do this comprehensive thing unless you have a Governor...at least the history shows that. You have to have a Governor who's willing to tackle this and it's not popular necessarily, and you have to have a legislator tackle it and it's not popular for them either to take on. Because there's always a winner...every time you pass a tax, it's somebody...the answer is, well, let someone pay the tax; I don't want to pay the tax. So, you know. [LB405]

SENATOR HADLEY: But, Senator Ashford, if you're doing away with personal income tax, I think if you ask the citizen on the street, they would think this one is pretty popular, wouldn't they? [LB405]

SENATOR ASHFORD: Well, there are... [LB405]

SENATOR HADLEY: I mean, if you go out to everybody up and down the street... [LB405]

SENATOR ASHFORD: I have talked to any citizen that...yeah, I haven't talked... [LB405]

SENATOR HADLEY: ...and say, you don't have to pay any income tax anymore, I think they would probably say that's... [LB405]

SENATOR ASHFORD: I think not paying income tax is not only popular, I think it's the trend and I think we're going to see 10-15 years from now that it's going to be more prevalent as we look to a more broader-based sales tax. Yes, I think that's where you're going to go. Whether it's zero or near zero, I think that's where we're going to go as a country. [LB405]

SENATOR HADLEY: So I guess my point is, it's a lot easier to say let's not...let's do away with income tax than saying...because I think once you do away with income tax,

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it will be...if we make the wrong decision, it's going to be very tough to reinstitute it. Would you agree with that? [LB405]

SENATOR ASHFORD: I think that's a great point. And I think that if we didn't have \$5 billion worth of exemptions and another \$3 billion...and someone is going to scold me for having the wrong number on service tax but let's say it's \$3 billion, you're talking that all property taxes in the state would go away. There would be no...if we just took all of the sales and we put it...we established a rate and we went ahead and did that, we would have no property...as far as I can tell, I think I'm right or close, at least Rich Pahls used to say this, we'd have no property tax and we'd have no income tax. We would be relying on and expanding...and I'm not saying do that, but that would certainly be... [LB405]

SENATOR HADLEY: Okay. [LB405]

SENATOR ASHFORD: That would be real radical. But, you know, if you're on...if you want to do that. [LB405]

SENATOR HADLEY: Okay. Thank you, Senator Ashford. Oh, I'm sorry. Senator Schumacher has... [LB405]

SENATOR ASHFORD: I was hopeful. (Laugh) [LB405]

SENATOR HADLEY: I knew you were trying to...(laugh). [LB405]

SENATOR ASHFORD: I was hopeful. Oh, my gosh, I have to go to another committee. (Laughter) [LB405]

SENATOR SCHUMACHER: Thank you, Senator Ashford, for introducing this and giving us an opportunity to have a conversation. And again I'm employing some of the points that you raised. But I'll start off with asking you how will we know a modern tax system when we see it? What are the elements of one? And we were told it was something dynamic, something was changing. Well, I don't know if that tells me, recognize it when I see it. But how would you say we... [LB405]

SENATOR ASHFORD: You know, you can tax income. Obviously income is going to always...as far as we know, it's been there since, you know, the Egyptian times, so there is income and you can always tax it. But it seems to me that if you're going to tax income, you want to keep that tax as low as possible because you want to keep as much money in the pockets of your citizens as you can. And you don't have any control or little control over the federal tax, so as that...that's very progressive. And we don't know...the income tax. And if we don't...it seems to me with healthcare, we're probably looking at more income tax. So, you know, it's out there and you can always tax it. But if

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you're going to tax, it ought to be taxed at a low level. It seems to me what a modern tax system is, is it is a tax that's based on the part of the economy that is growing at a rapid rate. Not so much that you extinguish the ability of that...for example, the Internet, which was brought up earlier, which is a great example. The reason the Internet wasn't taxed at the beginning...or ethanol or whatever it is, ethanol was subsidized...and in effect, the Internet was subsidized. We didn't tax it because we wanted it to grow. We wanted it to be economically viable, so there was a policy...but at some point it gets to the point where it's part of the flow of the economy and it's modern, but it's not as modern as when it started. So you start to think about let's tax the Internet, whatever; let's tax those things that are growing, those things that are not growing as much and that the more you tax it the more chance you're going to have it's going to go away. And maybe some of those things will go away. And that's an abstract answer, but. [LB405]

SENATOR SCHUMACHER: Well, I mean, if the object of this game is to bring in a lot of high-income people and good jobs and things like that, that people say, oh my gosh, Nebraska doesn't have a tax, we're moving in, then that will be an area of the economy that will be growing at a good rate. [LB405]

SENATOR ASHFORD: I believe that's...the reason I signed on to the bill is you have a Governor that's willing to do it. And I do believe the lower you get the tax rate, the more high-end...not high-end...more businesses will come here and you're going to have better jobs, more higher paying jobs, and people are more likely to stay. That's what I believe. Now someone else could believe the opposite. But I mean I think that's what happens. [LB405]

SENATOR SCHUMACHER: So what I've written down here is a modern tax is one that taxes the part of the economy that is growing at a rapid rate. Is that a fair summary? [LB405]

SENATOR ASHFORD: Right. [LB405]

SENATOR SCHUMACHER: Okay. [LB405]

SENATOR ASHFORD: And that's always...I mean you can find examples of others. [LB405]

SENATOR SCHUMACHER: Okay. Well, the next question is the same question that I asked Senator McCoy. This does not seem to be happening in a vacuum. There are similar efforts in similar states. [LB405]

SENATOR ASHFORD: Correct. [LB405]

SENATOR SCHUMACHER: Can you distinguish between this effort and those other

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efforts in...? [LB405]

SENATOR ASHFORD: I don't really care that much about those, to your...and I think you've made a good point earlier. I think the effort to substantially lower the income tax has been going on here, or the discussion, for as long as I've been in state government. So I...if we could make that work in Nebraska, we ought to do it. Now Texas...you could look at every state. Wyoming has minerals, Texas has oil. So I mean, there are other sources of revenue. So it may not be possible, Senator Schumacher, to totally eliminate the income tax. I think...and this may sound maybe cynical, it's not meant to, but if you don't take the...one of the arguments for eliminating the income tax, it seems to me, is if you don't eliminate it and go to the broader base of sales, if it's 2 percent like it was when "Nobby" was Governor, I think it was...well, it was about 2 percent. That was the sales tax rate. I can't remember what the income tax rate was. It's going to go to 7 percent or 9 percent again. So you have to make the decision you want to continue to tax income. And if you want to tax income, fine. But it... [LB405]

SENATOR SCHUMACHER: Well, Senator Ashford, then following up on some of the other things so I can clarify these in my head, we have an opportunity here to do something significant. How will we know significant when we see it? [LB405]

SENATOR ASHFORD: Well, when I feel good about it inside. (Laughter) [LB405]

SENATOR SCHUMACHER: Fair enough answer. (Laugh) [LB405]

SENATOR ASHFORD: Well, I mean, I think to Senator Sullivan's point, I think what we were always striving for was a third, a third, a third. I think we were always striving for a third, property tax; a third, income tax; a third, sales tax. We've never gotten there because property tax has been too high, and so we need to get property tax down. And there are aspects of this bill that will do that. I mean you have to fiddle with it and you've got to look at it, but there's a way of substantially reducing property taxes here. You've got a tool here it seems. We're finally grappling with the exemptions, so we've got a tool. And everybody is going to be mad if it's their exemption, but you know, the retiree who worked at the packing plant is going to be pretty happy, it seems to me, to have the extra money. And I don't want to, you know, be populist about it, but that really is a factor. [LB405]

SENATOR SCHUMACHER: Well, Senator Ashford, that leads very nicely into the next question. You had indicated that nobody is going to support a bill that raises taxes on common Nebraskans. Senator, if you were making a quarter-million dollars a year, what would you now be paying in income tax? [LB405]

SENATOR ASHFORD: I wouldn't have the slightest idea because I don't make \$250,000 a year. I'm... [LB405]

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SENATOR SCHUMACHER: Well, but I mean in simple math. [LB405]

SENATOR ASHFORD: In state income tax, you can make that calculation. I would be paying \$15,000. [LB405]

SENATOR SCHUMACHER: Okay. Your number came out very close to my guesstimate here. [LB405]

SENATOR ASHFORD: My God. [LB405]

SENATOR SCHUMACHER: All right. Fifteen thousand dollars extra in your pocket. [LB405]

SENATOR ASHFORD: Yep. [LB405]

SENATOR SCHUMACHER: And if you were making a half million it would be a lot more, and a lot more if you were making a million. [LB405]

SENATOR ASHFORD: Right. [LB405]

SENATOR SCHUMACHER: All right. This is revenue neutral. The bottom line is going to supposedly end up the same. So if those folks are going to be paying considerable amounts of money less... [LB405]

SENATOR ASHFORD: Right. [LB405]

SENATOR SCHUMACHER: ...where's...who's going to be paying more? [LB405]

SENATOR ASHFORD: You know, I think that is a central key question here. I think...and I'm going to just say the word...if...for families that are in poverty, that wherever that line is drawn. Now a lot of the problem is we're using lines that are drawn by the federal government. But people who are poor, this should be revenue neutral to them. Now obviously they should not be paying any more; and hopefully, they could be paying less. And how do they...but what is the advantage to them? It seems to me the advantage to people that are moving up from the very bottom is that we're going to attract...my theory is that we're going to attract businesses...but we have to build up our...we have to have career academies so people can learn how to do technology. But if we build up that base work force out of people who are poor so they can do twenty-first century jobs, then we're going to get twenty-first century employers in here because I think the income tax will drive that. And so you get a benefit. Now if one doesn't believe that, then one would not espouse it; but I do believe it. [LB405]

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SENATOR SCHUMACHER: Well, following up on that then, the folks that are now not paying taxes, in poverty, family of four, \$30,000 I guess is a pretty close guesstimate on the numbers. [LB405]

SENATOR ASHFORD: Right. [LB405]

SENATOR SCHUMACHER: They're not going to be paying any more, according to what you just said. Folks making a quarter of a million or more are clearly going to be paying less. This is starting to hit pretty close to home. It looks like... [LB405]

SENATOR ASHFORD: Well, then you should have... [LB405]

SENATOR SCHUMACHER: ...I'm going to be paying more. [LB405]

SENATOR ASHFORD: If you want to have...if part of your income...if part of your tax scheme is to have...on the state side to have a progressive...you know, by definition, the rates are based on income. If that's what you want to do, if that's what as a matter of policy that's best for the state, then you maintain some progressivity. But I don't think you want to have progressivity be what drives your tax decisions only. What the other countervailing consideration is, how are you going to grow...you know, how are you going to get high-end employers with high-tech jobs to come in? I...most of my...a lot of my information is anecdotal, Senator Schumacher, so I can't, you know...yes, they'll have more money. And the question is, is it wrong or right that they have it? I don't know. [LB405]

SENATOR SCHUMACHER: Well, this is...I mean, if you start out with career academies and start advertising, no tax in Nebraska, or at least no income tax in Nebraska, people aren't going to pack up and turn up today. We've got to pay the bills next year. So if we implement this, how do...who's going to pick up the tab while we're waiting for all these wonderful things to happen? [LB405]

SENATOR ASHFORD: You could...if you want to maintain...here's what I would suggest and I'm not necessarily for this. If you want to address that concern, then put it, an income tax, at \$100,000 or \$250,000. Impose some kind of a tax on people that make an income over, to your point, \$250,000. But you're not...but then the middle-class Nebraskans are not paying income tax and they need that money; that's what I believe. [LB405]

SENATOR SCHUMACHER: But right now somebody is going to have to pick up the difference. Who's that going to be? I've got written down so far... [LB405]

SENATOR ASHFORD: You've got sales tax. I mean... [LB405]

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SENATOR SCHUMACHER: Somebody between \$30,000 and \$250,000. I mean, that's kind of what we narrowed it down to is going to be picking up the difference. [LB405]

SENATOR ASHFORD: There are people that will say that...and I've seen a study from OpenSky that says anybody under \$91,000 is having...well, 80 percent of them will have a tax increase. I don't believe that. And I don't disbelieve that there have...they're well-intentioned. But if you...you have to Nebraskans in that tax place, you know, are you better off, family of four at \$50,000, having all your income tax in your pocket and paying possibly some more sales tax, though we have exempted food, and you look at the exemptions and try not to pick those things that are going to hit. A lot of these other sales we're talking about are...a lot of these products are sold globally. I mean, I'm not sure they really hit the taxpayer in Nebraska. Maybe we're talking and I'm not answering your question, but. [LB405]

SENATOR SCHUMACHER: Well, Senator, I guess the thing is, you know, you've got your guesstimates and what...how...who might be hit heavy. I've got my guesstimates. Probably everyone around this table has their guesstimates as who's going to make up the difference, because the folks in the six-figure areas are going to be paying nothing. But are there any studies, are there any models, are there any simulations? Do we know anything other than what we kind of (inaudible) makes us feel good? [LB405]

SENATOR ASHFORD: Here's what drives me, Senator. I...here's what drives me on this bill. What drives me on this bill are the...what...we have made a promise to the people of this state, I believe a long time ago, when we implemented the income tax when I was 17 and you were 18. We made a promise at that time that we would lower the property tax and get the income tax down. The income tax had gotten high and the property tax was high. We made that promise. We have not kept up that promise. If this committee wants to take the income tax to 5 percent or 4 percent and reduce property tax, we're going to be a better state for it. But to me it's absolutely ridiculous to take all these exemptions, including services, and just say we're not going to consider them, because...and we have broken a promise, in my view, to the taxpayers of this state. I don't...you know, I understand the comments about progressivity and I think it's a valid argument. But then let's come up with a bill that dramatically gets us back to the promise that we made years and years ago, and I think it was a promise, that if we're going to have income tax and we're going to sales tax, we're going to have property tax that does not...property tax drives people out of this state. [LB405]

SENATOR SCHUMACHER: Okay. Okay, now we've got income tax driving people out of the state. [LB405]

SENATOR ASHFORD: Yeah. [LB405]

SENATOR SCHUMACHER: Property taxes driving people out of the state. [LB405]

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SENATOR ASHFORD: They both...combined, they really drop them...drive them out. You have a double duo. And that's because we didn't...because we didn't follow through with our promises. And our promises... [LB405]

SENATOR SCHUMACHER: Maybe J.J. Exon was right, we've just got to wait until the rest of the states fill up. You said nine states don't have an income tax and one commonality is no income tax and that they do good. What are the other commonalities in those nine states? [LB405]

SENATOR ASHFORD: The one that's most interesting to me is Tennessee, because maybe it's most like Nebraska, and that's...it has a much larger population than Nebraska does and it implemented a no...I mean, you'd you have to go down and examine and find out what combination. I think it has many similarities as far as one or two large urban areas. I'd have to study the demographics of Tennessee versus Nebraska. It's a much bigger state. But, you know, I...it seems to work. I mean, you talk to people in Tennessee, and they say the income tax drove employers to move there. It increased income levels; average income levels went up, but. [LB405]

SENATOR SCHUMACHER: One final question and then I'll let go and I did enough scribbling on my sheet here. You said something that I think struck really home with me...well, a lot of capital is leaving this state, and the presumption is that if I move out of state and I take whatever I've accumulated in my savings and now I'm in Florida or Texas or someplace, that that's the vehicle that's leaving. But doesn't that also hint at a much larger problem? Because if I have a million dollars in the bank and I'm in this state and I have no vehicle for investing that money in this state, it's going to leave the state by being posted on the market, by being invested in real estate and other places that might be appreciating. [LB405]

SENATOR ASHFORD: I agree 100 percent. I think Nebraska is in potential big trouble. As the baby boomers, except for you and I, start dying off, essentially...I mean, that's not going to happen to us, so basically, you know, we're going to be in a...within the next five to ten years, we're going to be losing population. We're not going to be gaining population if we go at the current rates. And if we don't figure out a way to juice up this economy in this state, in the next ten years...and I...and you guys can do it. You can figure out the way to do it. All I'm saying to you is, let's juice it up; let's get taxes down as much as we can. Let's address what Senator Sullivan is clearly correct in asking about, which is property tax, and let's come up with a tax bill that's...and we've got a Governor that's willing to do it. I mean, I don't know, it's as good as it gets. I don't care if he's a Republican or what he is. I mean, to the point about having Republican governors in other states doesn't make any difference to me. We've got to comply with our promise, which is to get taxes down for the average Nebraska taxpayer at \$50,000 to \$90,000, whatever it is, or \$30,000 to \$90,000, wherever that average is or that...and

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we've got to fulfill...and I'd like before I leave, and obviously I'm terminated here, is that I'd like to say finally we've fulfilled our promise. [LB405]

SENATOR SCHUMACHER: And the promise was made when you were 17 and I was 18? [LB405]

SENATOR ASHFORD: I think it was made in 1967. [LB405]

SENATOR SCHUMACHER: And we promised to... [LB405]

SENATOR ASHFORD: To make income tax and property tax and sales tax, a third, a third, a third. [LB405]

SENATOR SCHUMACHER: And then we were 2 percent of the sales tax...or on the income tax, if I remember right, 2 for "Nobby" that got him in trouble. [LB405]

SENATOR ASHFORD: Right. [LB405]

SENATOR SCHUMACHER: And so we were...and so is your suggestion, our formula still should be the third, the third, the third? [LB405]

SENATOR ASHFORD: I think the income tax...I wouldn't have signed on to the bill if I didn't believe the income tax was a driver. But I do think we have to address that issue and I think if we don't, if we don't, if we let those exemptions...just because...and there's a legitimate interest behind every one of those exemptions. I don't deny that. But we cannot let them run this state. We cannot let them run this state. We represent the people of the state. There is a promise to those people that we were going to get those taxes down. It has not happened. It has not happened. And now we have a Governor and a Legislature...I mean, and certainly you're willing to take it on as a project; whether you put a bill out or not, it's your decision. But we've got an opportunity, and it's a window of opportunity and I think we ought to take it. [LB405]

SENATOR SCHUMACHER: But if it's revenue neutral and we take somebody's taxes down, who's going up? And show us that map. [LB405]

SENATOR ASHFORD: Well, I'm sure you guys will figure it out. And, Paul, Senator Schumacher, once we get that math and we can get it in fairly short order--Bill Lock has probably got it done in his office right now--is that it seems to me that then you make some policy around it and you get to a point where we make the state more attractive on the tax side. And I think we have a unique opportunity to get there. [LB405]

SENATOR SCHUMACHER: Thank you, Senator. I'm done. [LB405]

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SENATOR HADLEY: Senator Harr. [LB405]

SENATOR HARR: Thank you, Mr. Chairman. Senator Ashford, thank you for your gut-wrenching enthusiasm. It's always enjoyable. [LB405]

SENATOR ASHFORD: It was supposed to be the opposite. It wasn't supposed to be gut-wrenching; it was supposed to be...you know. [LB405]

SENATOR SULLIVAN: Heartrending. [LB405]

SENATOR ASHFORD: Yeah, heartrending maybe. [LB405]

SENATOR HARR: (Laugh) Well, and on a light note let me ask you this. I'm up for election in two years. Why should I support this, if everyone who supports it doesn't get reelected? [LB405]

SENATOR ASHFORD: Because I know where you live. (Laughter) [LB405]

SENATOR HARR: All right. You do. [LB405]

SENATOR HADLEY: Okay, thank you, Senator Ashford. [LB405]

SENATOR HARR: Wait, wait. No, I do have some questions though, seriously. Seriously, seriously. So you mentioned a Wall Street Journal article from last week. [LB405]

SENATOR ASHFORD: Did I quote it incorrectly? I don't (inaudible). [LB405]

SENATOR HARR: No. Well, I have one from yesterday. [LB405]

SENATOR ASHFORD: Oh. Okay. [LB405]

SENATOR HARR: So it's a little more up to date. [LB405]

SENATOR ASHFORD: All right. [LB405]

SENATOR HARR: And it looks at...it calls it a "red state model." I don't want to use that model but that's what the article uses. [LB405]

SENATOR ASHFORD: Okay. [LB405]

SENATOR HARR: And it talks about the number of states that this is the proposal, that we cut income tax and we broaden the base and/or raise sales tax. [LB405]

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SENATOR ASHFORD: Okay. [LB405]

SENATOR HARR: Now The Wall Street Journal, a liberal man's newspaper, made the statement...well, it talks about if this falls short, the policies could lead these red states and others scrambling to fill big budget holes for education and social services while driving investors to other states. The gamble underway in the red states contrasts sharply with other states. They themselves call this a tax gamble. It says that we won't have an answer for a long time. They interview Mayor Brownback or...excuse me, Governor Brownback,... [LB405]

SENATOR ASHFORD: Uh-huh. [LB405]

SENATOR HARR: ...who...it says Mr. Brownback and his top aides acknowledge they have taken a leap based partly on faith. Quote, our out-year forecasts are pretty much guesses, said the governor's revenue secretary, Nick Jordan. Mr. Brownback said he hopes some new oil exploration in the state will generate unforeseen revenues. We're not going to have new oil unless something bad happens on the Keystone. [LB405]

SENATOR ASHFORD: Well, we're going to have natural gas, aren't we? (Laughter) [LB405]

SENATOR HARR: Yeah. [LB405]

SENATOR ASHFORD: Well, I mean, we're going to have natural gas. Why aren't we going to have natural gas? [LB405]

SENATOR HARR: So then that's my question is that's what you're looking for... [LB405]

SENATOR ASHFORD: I mean, we're going to get natural...if Kansas has natural gas, we're going to get natural gas. [LB405]

SENATOR HARR: And do we have it? Where do we have it? [LB405]

SENATOR ASHFORD: I don't know. We have water. [LB405]

SENATOR HARR: So do we want taxing water then? I mean that's my question...my question here is, this is considered a tax gamble. And again, this is coming from The Wall Street Journal. [LB405]

SENATOR ASHFORD: I don't think...here's one of the things that I just...I hate, Senator, is this whole...not you but in these articles. Everybody gets great pleasure out of saying it's either a red or a blue... [LB405]

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SENATOR HARR: And I'm not. That's their words. [LB405]

SENATOR ASHFORD: No. But I think if we...just let me just say...go ahead and answer your question, but. [LB405]

SENATOR HARR: Okay, no, no. That's their words, not mine. And I'm not...and I hate it because I don't want to make this a partisan issue. I want this to be on the merits of the argument itself. And I think what you have done is...I mean, today, you've done a great job and I think what you did with LB772 and LB775 have been absolutely amazing. And so I would make the argument that we don't do it every 50 years; we make a large change in a tax bases every 25 years. So we probably are about due to evaluate it. My question though, is, is this the best way? The Wall Street Journal is calling this a tax gamble and they're questioning whether it's good or not. And by their own admissions, the out years are horrible on this. So my question is, why should...that we use this way? [LB405]

SENATOR ASHFORD: Well, I...even...The Economist...if we're going to start getting into this. The Economist this week has an article... [LB405]

SENATOR HARR: But you quoted The Journal first. (Laugh) [LB405]

SENATOR ASHFORD: No. The Economist has an article about Sweden. I mean, Sweden, is not a low-tax country, as far as I know, being Swedish. That the...or half Swedish. But basically they've lowered their tax rate from 52 percent, or whatever, to 37 percent in Sweden, and their kronor goes up and up in value. I think whether it's red or blue or green or whatever the politics of the moment, of the day, du jour is, we are better off as a state the size of Nebraska to be as efficient as we can, and I think we strive for that, and also to...on the spending side. But on the revenue side, to come up...we need to juice this thing up here. Nebraska needs a new approach, and it could involve income tax to some extent, fine, but we need a new approach. We need to lower income tax and property tax significantly, and we need to do it in a prudent manner, to your point. We're not Kansas, thank God, you know. We're Nebraska. So, you know, that's my view. [LB405]

SENATOR HARR: And so that...great. And I'll leave you with a softball one. [LB405]

SENATOR ASHFORD: Okay. Oh. Okay. [LB405]

SENATOR HARR: All right. So we're taking tax exemptions from...away from sales tax. Why should we not lower sales taxes instead of income tax? [LB405]

SENATOR ASHFORD: For the moment...I think you have to take sales...my...you know,

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when we did the sales...the first sales tax bill in '67 had sales tax on food. And individuals that would qualify would get a check, and I think it was every quarter, cash, to make up for paying the tax. That's a pretty difficult and expensive way to handle it. But, you know, I've...take your pick. Take your pick. You've got...my goodness gracious, you've got \$8 billion to work with. Can't you find...? (Laugh) [LB405]

SENATOR HARR: Yeah. [LB405]

SENATOR ASHFORD: Can't you find a few billion to lower the other taxes? That's all I'm saying. [LB405]

SENATOR HARR: All right. Well, thank you very much for your time. I appreciate it. [LB405]

SENATOR ASHFORD: Okay. [LB405]

SENATOR HADLEY: Okay. Thank you, Senator Ashford. Governor, thank you for visiting us. Tough act to follow, Governor. [LB405]

DAVE HEINEMAN: (Exhibits 2 and 3) Chairman Hadley and members of the Revenue Committee, for the record my name is Governor Dave Heineman, D-a-v-e H-e-i-n-e-m-a-n. And I am glad to be here today and I look forward to your questions. I want to start this important discussion today by thanking Nebraskans; thanking Nebraskans for being engaged and for providing us the input on reforming Nebraska's tax system. In Nebraska, we have strong opinions but we are able to discuss our differences on policy in a civil and respectful manner. I want to emphasize that we welcome everyone's input. We are prepared to work with the Legislature and all Nebraskans to develop better tax policies for Nebraska. And I want to thank Senator McCoy and Senator Ashford for introducing these bills. Now let's start with the obvious question: Why do we need a new tax system? Well, this is about the future, not the past. This is about 2013, not 1967. We need a modern tax system, and I'll look forward to defining it for Senator Schumacher in a minute, to create more jobs and higher paying careers for our sons and daughters and our grandchildren. Ask yourself, does every member of your family, your brothers and sisters, your aunts and uncles, your sons and daughters, and all of your family members still live in Nebraska? For many, many Nebraskans the answer is no, because they couldn't find a job or the right career here in Nebraska. We need to change that. Our discussion needs to be about good tax policy that will create more jobs and higher paying jobs. So where does Nebraska stand today? The Small Business and Entrepreneurship Council states that Nebraska's top personal income tax rate is 35th highest in America and higher than every one of our neighboring states. That's important because more than 90 percent of small businesses pay their taxes as individuals. They pay through the individual income tax system rather than corporate income taxes. High taxes impede economic growth. And as you know,

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43 states exempt a portion of or all Social Security income from taxation, but not Nebraska. Furthermore, 23 states exempt a portion of or all retired military pay from taxation, but Nebraska does not. So what can we do? The state of Nebraska's sales and income tax system generates about \$4 billion in revenue. The income tax system raises about \$2.4 billion. The remainder comes from sales tax revenue except for a small amount of miscellaneous income. But as you've heard today and over and over again, most Nebraskans are surprised to learn that the state of Nebraska exempts \$5 billion--\$5 billion--in sales tax exemptions. Nebraska exempts more than we collect. If we eliminated just half of the current exemptions, Nebraska wouldn't need to have an individual income tax or a corporate income tax. Without a state income tax, there would be no income tax on working Nebraskans. Nurses, hospitals workers, manufacturing workers, welders, electricians, teachers, firefighters, police officers, railroad workers, waitresses, and every worker in Nebraska would no longer pay state income taxes on their wages. Social Security and military retirement income would no longer be taxed. There would be no state tax on small business income. We need simplicity and fairness in our tax code. We need a modern tax code that rewards productivity, profits, and job creation. Our current tax system favors one industry over another. It picks winners and losers. Now change is not easy, especially when it involves taxes, but this is the discussion our state needs to have. And I appreciate what I'm hearing from Nebraskans. It has been nearly five decades since Nebraska had a serious debate about our overall tax system. In the 1960s, and this is hard for young people to believe, Americans didn't even have personal computers in their homes. Today we live in an electronic age. Today we're educating our children for jobs that have not yet been created using technologies that have not yet been invented. Today we're operating in a technology-driven, global, free-market economy. Our tax reform proposal is revenue neutral and budget neutral. LB405 is an example--an example--of how you can eliminate \$2.4 billion of sales tax exemptions, thereby eliminating the state income tax. In order to accomplish the goal, we need to have a discussion about which exemptions you would eliminate. LB406 is an example that eliminates approximately \$400 million in sales tax exemptions; and when you eliminate a smaller number of exemptions it becomes very difficult to eliminate the individual income tax. At best, you might be able to eliminate the corporate income tax and exempt some retirement income. Now the agriculture community has shared with me that LB406 seems to target agriculture more significantly than other industries. That was not our intent. The purpose of that bill was simply to demonstrate that if you retain most exemptions, it becomes very difficult to eliminate the individual income tax. The focus was not on the exemptions eliminated but on the challenge of eliminating the individual income tax. If you wanted to pass this bill, any of the \$5 billion of sales tax exemptions that would add up to \$400 million could be used. Our goal is a better tax policy environment that will create more high-paying jobs and more rewarding careers for our sons and daughters. Now let me share with you what I'm hearing from our citizens, some of which won't surprise you. Frequently they tell me, Governor, I'm with you, I want to eliminate that state income tax; but, oh, by the way, I want to keep my special interest exemption. And I tell them you can't have it both

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ways here. You can't have your cake and ice cream both. In order to eliminate the state income tax, the trade-off is the elimination of \$2.4 billion of sales tax exemptions. I believe food from the grocery store should be exempted, but beyond that, I'm asking Nebraskans which \$2.4 billion would you eliminate? Now let me share this with you. More and more Nebraskans are telling me that we should eliminate all \$5 billion of sales tax exemptions. In their view, that would be fair to everyone. If you did that--I had the Department of Revenue calculate what would happen--you could eliminate the state income tax and you could lower the sales tax rate to approximately 3.5 percent. Nebraskans have been asking me why the current law exempts some industries from paying sales taxes on machinery and energy, but, in most industries, from construction to homebuilding to real estate to retail and financial services, they have to pay sales tax on machinery and energy used in their industry. For example, why is Lozier exempted from paying sales tax on the energy they use, but First Data, Hy-Vee, PayPal, Mutual of Omaha, Hawkins Construction, Omaha Steaks, Nebraska Furniture Mart, Runza, the Buckle, TD Ameritrade, Marriott, Cash-Wa, BD Construction, Cedar Rapids State Bank, First National Bank, Ameritas, Union Bank, Oriental Trading, Cabela's, and most other businesses in Nebraska have to pay sales tax on the energy they use? Why do Nebraskans have to pay sales tax on the energy used in their home but businesses like Lozier get a sales tax exemption? Nebraskans are asking, isn't that picking winners and losers? Is that fair? Now, as you know--and I know personally as I've been traveling this state--this is a challenging and difficult issue, but it's clear it's a discussion we can and should have here in the state. Now, later this afternoon, or I should say maybe later this evening, you will hear from many interest groups who want to preserve their sales tax exemption. I understand that. But I hope you'll ask them what they're for, not just what they're against. Are they for the current tax system that penalizes small businesses and working Nebraskans? What do they want to do to stop young people from leaving the state to find a good job? What do we do to prevent seniors and military retirees from leaving the state because Nebraska taxes their Social Security and retirement income? I want every Nebraskan and every Nebraska business, even those who oppose this or who want to preserve their special tax exemption, to join with us in developing better tax policies that create more jobs and higher paying careers for generations to come. And now, Matt, if I could get you to pass this out, I've got one final point I want to make...or whoever wants...there, I'll give it to you. Yesterday, the Nebraska State Chamber of Commerce said they're opposed to LB405, and at the same time they also released a new study called the "100 NExt Generation Ideas" about Nebraska, and I want to share with you a couple items in here that I think you'll appreciate. This was a quote from Kim Russel, CEO of Bryan Health. "We believe the 100 NExt Generation Ideas, when implemented, will strengthen communities throughout our state and will create new opportunities for future Nebraskans." Barry Kennedy said this, "Strong economics and prosperous communities do not happen by accident. They are the result of bold ideas, hard work, and constant vigilance. These NExt Generation strategies offer a road map to a more prosperous Nebraska." And now let me share with you item number 25 on their list: Getting rid of the state income tax would help put money into everyday

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businesses, attract retired people, and make the Nebraska way of life even better. Item number 26: Implement a flat tax for income tax purposes in Nebraska. This will require the elimination of most, if not all, deductions. And item number 96 from the Nebraska State Chamber of Commerce: Eliminate state income tax on Social Security taxes in Nebraska to help attract and retain seniors. We are one of only a few states that has this tax. The 100 NExt Generation Ideas, it is about the future and it is a conversation I believe that we can have in this state--and we need to have--and then we'll see where we end up. I'm delighted to be here and I look forward to answering your questions. [LB405]

SENATOR HADLEY: Are there questions for Governor Heineman? Senator Sullivan. [LB405]

SENATOR SULLIVAN: Thank you, Senator Hadley. Thank you, Governor. I really appreciate you being here. And you know that you and I have traveled in a lot of places in rural Nebraska, and we've kind of carried the same message... [LB405]

DAVE HEINEMAN: Yes, we have. [LB405]

SENATOR SULLIVAN: ...about wanting to make this a better place. But I have to tell you, you know, I came down here trying to do my best to represent the people of rural Nebraska and District 41. And I'm hearing from them and trying to kind of process what they're saying, and some of the things that concern me just kind of hit right to the core of the fabric of rural Nebraska, agriculture being one of them. And, you know, people are filing into the Cedar Rapids State Bank. Farmers are doing the pencil,... [LB405]

DAVE HEINEMAN: Right. [LB405]

SENATOR SULLIVAN: ...pushing the pencil on this. And, for example, it's not coming out for them. They are seeing...granted, the last two years they've seen some good years and they're actually kind of glad to finally be paying some income tax; but they're putting that up against the amount that they would conceivably pay in sales tax if all the exemptions are removed, and they're concerned about that. And then I look at the impact on our rural hospitals, the biggest employers in the county. Just today I heard that the ethanol plant in Albion reopened, and I'm ecstatic about that. All of those businesses are so concerned about the removal of these sales tax exemptions that I'm concerned that they may actually curtail some of their activity, and ultimately mean job loss for people. I'd like you to respond to that if you could. [LB405]

DAVE HEINEMAN: You know, I'll be glad to. I don't think there's been a Governor who has been more supportive of agriculture than I have, and I'll continue to be. But at the same time we've got to have the conversation. Everyone has got to take a look at these exemptions. I think you've got to answer the question: If two industries get them,

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shouldn't everybody get it on machinery or energy, or no one gets it? Let me give you an example. I talked to Boyd Jones up in Omaha. When they buy a crane to erect a wind tower on a Nebraska farm, that crane costs \$6 million and they pay sales tax on it. I mean, I know no one wants to pay sales tax but I also know when I look at what's occurring in our state, I think someone asked the question earlier, from 2000 to 2010, 69 of 93 counties lost population, all rural, with this tax code in place. And so I want us to have the conversation. Maybe at the end of the day we'll say, ag is special, they shouldn't have any sales tax on their equipment or machinery. That's a discussion we've got to go through. But I think, on the other hand, people are asking, hey, what's fair here? Let me give you another one involving the hospitals, and this isn't even one that we're after. In the last week, I've been to Rotary almost every day somewhere in Nebraska because I'm trying to get input from everybody. In two cities we had Rotary in the hospital. We didn't pay sales tax on the food. In the other three cities, in two restaurants and the VFW, because it wasn't in the hospital, we paid sales tax on the food. Union Pacific has a cafeteria and many others do. Their employees go to it every single day. They pay sales tax to get their food; in a hospital you don't. So at least we ought to have the conversation, and that's what this is all about. But again, at the end of the day I want to make sure we find the right balance. Few governors would come in front of you and say, do you know what, you take LB405 and tell me which \$2.4 billion you want to exempt and I'll sign it into law; you can make the determination. That's how wide open we are because we know we need the discussion. [LB405]

SENATOR SULLIVAN: Thank you. [LB405]

SENATOR HADLEY: Other questions for Governor Heineman? Senator Harr. [LB405]

DAVE HEINEMAN: I was going to say, either Senator Harr or Senator Schumacher, I know. [LB405]

SENATOR HARR: Well, and a lot of what I'm going to talk to you about is, I wouldn't call it criticism, I'd call it constructive criticism. [LB405]

DAVE HEINEMAN: Okay. That's fair. [LB405]

SENATOR HARR: And I'm not trying to be...well, I guess I'm trying to have a debate on the merit. [LB405]

DAVE HEINEMAN: Okay. [LB405]

SENATOR HARR: And what we're looking at here is...and this is the first time we've been able to have a discourse and a conversation about this. This started last summer and we really didn't see the...what we saw was LB405 and LB406 in early January, as I said. And now we're learning that these are the first steps; these aren't the final steps,

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which is very encouraging to hear, because I do think it is time to have comprehensive tax reform and to at least have a look at that and to decide how we want to look at that. And so in looking at what Nebraska should do, I looked at what other states have done, as guidance. And so what I saw was what Kentucky did. And Kentucky put together a blue ribbon commission on tax reform, and that blue ribbon commission met and the governor charged that commission, and what he had them...he had the commission perform the following tasks. He had them study the burden of taxation on Kentucky taxpayers, both individuals and businesses, as compared to taxpayers in other states. He had them review...they reviewed recent changes and proposed modifications in the tax structure in other selected states; thoroughly examined and addressed tax policy consideration concerning the issues of adequacy, efficiency, fairness, and equity, as well as economic competitiveness to determine whether the state's code currently operates in furtherance of these stated objectives. They held public meetings to receive input from the general public and interested parties, and received testimony from experts in public finance, taxation, and other stakeholders. Six of the fourteen public meetings were conducted in each of the Congressional districts. Meetings took place in a...and then they mention the cities. The commission focused on, as I said, fairness, competitiveness, simplicity in compliance, elasticity, adequacy. These are what they looked at. Now I'm sure you looked at all those issues, but we haven't really had a chance for public discourse on that until today. Many people are going to come after you and they're going to talk about this, and I'm excited to hear that you plan to stick around for the whole day. [LB405]

DAVE HEINEMAN: I'll be here. [LB405]

SENATOR HARR: So I thank you for that...and tomorrow as well. So thank you. [LB405]

DAVE HEINEMAN: I'll be here tomorrow too. [LB405]

SENATOR HARR: Yeah. And thank you. So a lot of the questions that you're hearing from Senator Schumacher and myself are questions that have been relayed to us, and unfortunately, due to the process we've chosen, they can't ask these questions to you. So some of these I'm communicating from other people that want an answer, some of these I'm playing devil's advocate on. [LB405]

DAVE HEINEMAN: I do it all the time so I don't have a problem with that. [LB405]

SENATOR HARR: Yeah. And I think it makes the arguments stronger and better. [LB405]

DAVE HEINEMAN: Yeah. [LB405]

SENATOR HARR: And so I don't want these questions that I'm going to ask to you be

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taken in the wrong light, to be taken as divisive, but rather to help structure the debate. So with that in mind, let us begin. What is the general philosophy behind this bill? By that what I mean is, what is your definition of fairness and simplicity that you talked about? I mean, we could be like Augusta National golf course where we could just do as they used to do where they take and you pay per head. But we don't do that in this state. So in looking at this, what was your definition of fairness and what was your philosophy in deciding how to go forward on this? [LB405]

DAVE HEINEMAN: Okay. And let me take a few minutes. I think that's a fair question. [LB405]

SENATOR HARR: Please. Take all the time you want. Yeah. [LB405]

DAVE HEINEMAN: All the time? Okay, thank you. [LB405]

SENATOR HARR: There you go. [LB405]

DAVE HEINEMAN: First of all, I want to make clear I have not contacted a single other governor, Republican or Democrat, about what they're doing versus what we're doing. [LB405]

SENATOR HARR: Uh-huh. [LB405]

DAVE HEINEMAN: Over...ever since I've been Governor, I've said it's about education and jobs, and tax policy comes into play. Working with many of you around the table, we passed the largest tax relief package in the history of the state. But every day, as I travel this state, I don't have anybody come up to me and say, Governor, we've got the perfect tax system, none of my family members have ever left, and all the stuff we talked about. So over the last couple years, simply I've been talking to a lot of different people, asking citizens. And then remember Senator Pahls shared with us a whole bunch of things about sales tax exemptions. And I'll be candid, when I first heard it, I didn't think he was accurate that we really exempted that many things. And so as a result of that, I had several conversations with him. I continued to talk to business leaders, tax experts, accountants, just general Nebraskans, about where do...what should we be doing. And then last year at the National Governors Association, I chaired it. We had a whole series of economic development meetings across America to come up with what are the best way to grow states' economies--I happened to bring it with me--we came up with 12 strategies. Number one, create a competitive tax and regulatory environment. So there's no question that tax policy comes into play. It also comes into play, as I'm in meetings of people, CEOs, business leaders who are thinking about expanding in the state or coming here, one of the first questions they always ask me: What are your tax rates? And when I have to say the top rate is 6.84 percent, corporate is at about 7, and they say, well, in other states, 0 or 2 or 3, I know what's

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going to happen. Now if we can get by that, we can win on a bunch of other issues. We've got a great education system in this state, a strong work ethic, a great quality of life, all the factors that you know. So those were some of the things that I took into account. And then when I read the studies that's been documented over and over again, what are the fastest growing states economically; it's those who have no income tax or a low rate. And I worry, for all the progress that we've made...and I want to be clear, many of you have heard me quote the Tax Foundation. When I started as Governor, we were 45th; one of the top ten highest tax states in America. Today we're 31st. Now that's not the Bible; that's one study. But 31st is in the bottom half--and I think we can do better than that. And I want all of our young people to stay in the state. So to me that's why we need this conversation. [LB405]

SENATOR HARR: Okay. And I want to have the conversation. And I guess...but what I'm getting at is, I get you want to have the conversation. But what is our underlying philosophy? Is it competitive in business? [LB405]

DAVE HEINEMAN: No. Low rates; few exemptions; don't favor one industry over another; and a tax policy that promotes economic growth, that spurs economic activity. [LB405]

SENATOR HARR: And so that's your definition of fairness, as well, probably. [LB405]

DAVE HEINEMAN: And let me add, we still have a responsibility to make sure we have sufficient revenue--that's why we tried to make this budget neutral--to pay for the services that we want in this state: education, health and human services, public safety, and all the rest. [LB405]

SENATOR HARR: Okay. But that's your definition of fairness as well? [LB405]

DAVE HEINEMAN: Well,... [LB405]

SENATOR HARR: When you talked about fairness, how do we determine... [LB405]

DAVE HEINEMAN: Let me talk about fairness... [LB405]

SENATOR HARR: Yeah, thank you. [LB405]

DAVE HEINEMAN: ...because I think you know the answer to that the same as I do, okay? When I talk to Nebraskans, and I think--I won't get this quite right, what the former governor of Louisiana said, but basically it goes along this line: A tax that you pay that I don't pay is a fair tax. Well, I'm not going to get into that, okay? In our state we've got a diverse economy, from agriculture in the central and western Nebraska, to Lincoln and Omaha in a more urban area. So somewhere we've got to find a balance

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between what we're doing. But I will say, I don't think you can get away from the fact, right now, in 2013, the fastest growing states are those states with a low or no income tax. [LB405]

SENATOR HARR: So how did you apply this philosophy then? [LB405]

DAVE HEINEMAN: Basically, you know, in the course of all these meetings, and particularly when I met with the Department of Revenue, I said, okay, I want to understand these exemptions; I keep hearing about them. You know, let me give you another one that again we're not even after in this one, but it just points out the point. You know, back in 1967, '70s, '80s, we used to have paperboys and paper girls. And we didn't want them to collect or figure out how to pay the sales tax on the newspaper, so we gave the newspapers an exemption. We still have that in place today even though that's not the way they collect the revenue. And, in fact, if you go to a local convenience store now, you buy a Sports Illustrated, Husker Illustrated, Newsweek, or Time, you pay sales tax on that; but you don't pay tax on the Omaha World-Herald and the Lincoln Journal Star. [LB405]

SENATOR HARR: Okay. So I guess my question then is you have some items that you kept that are currently tax-exempt. Well, first of all, we started with some items that have never been taxed, so they're not tax-exempt. For instance, personal...some items that have never been taxed. So, for instance, personal services are not considered a tax exemption per se because... [LB405]

DAVE HEINEMAN: Right. Right. We've never had the conversation about that. [LB405]

SENATOR HARR: Yeah. Yeah. And is that part of the \$5 billion or is that...? [LB405]

DAVE HEINEMAN: No, that's not part...when you're talking about, you know, if you want to expand, for example, tax lawyers, and you and Senator Schumacher and Senator Pirsch want to lead that fight, I'll be glad to have the conversation with you. [LB405]

SENATOR HARR: Okay. No, I just wanted to clarify that that \$5 billion is without even taxing personal services. [LB405]

DAVE HEINEMAN: Without even taxing services. [LB405]

SENATOR HARR: Okay. That's great. So we have certain items that are tax-exempt today. If LB405 went through, it would be tax-exempt January 1, 2014. We have other items that are tax-exempt today that, January 1, 2014, would not be tax-exempt. [LB405]

DAVE HEINEMAN: Depending on what we do, that could be correct. [LB405]

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SENATOR HARR: Well, yeah. Let's just take LB405 as it's written... [LB405]

DAVE HEINEMAN: Right. [LB405]

SENATOR HARR: ...and assume it went forward. There would be items that are tax-exempt today that are not tax-exempt January 1, 2014. There would even be some that start earlier. But...and I don't want to say we're picking winners and losers, but how do we determine which items remain, get to keep their tax-exempt, which ones don't; and what was your process as you went down the row determining which ones are and which ones aren't? [LB405]

DAVE HEINEMAN: First of all, to the extent we could, we tried to focus on business sales tax exemptions. Keep it focused on business. That's why we said food is off the table. So to the extent you can--and I suspect we could get to 80, 85 percent of that maybe--you could keep it focused there, okay? Within that, it's your best judgment. You talk to people out there, and again I raised the example: Is it fair that one business doesn't pay sales tax on their energy but another does? We've all got to make that judgment, is that fair or not? So you either exempt them all or you say the others are going to get exempted. I don't think we can afford that, quite honestly. And so it's a judgment call. But you know what? I trust the people of Nebraska. I trust you. You know, that's the conversation we're going to have. Now let me...I want to answer one other question, and I think a couple of you asked, but you're just hearing it now, okay? Well, a couple of things--I'm trying to be as candid as I can--we've been having this conversation for a long period of time, but the Governor...when I propose a budget, you don't hear about it until I produce it; when you introduce a bill, I don't hear about it until you write the bill. So, to me, that's just the normal course of action that we've got to get a product out here to have a conversation. [LB405]

SENATOR HARR: I guess I would agree with that and disagree with that. [LB405]

DAVE HEINEMAN: Okay. [LB405]

SENATOR HARR: Last summer...I mean as a personal example, last summer I worked on looking at the Nebraska Advantage Act. [LB405]

DAVE HEINEMAN: Um-hum. [LB405]

SENATOR HARR: There's also legislation we can do, legislative resolutions, to look at these. But what we did was, or what I did was try to get a group of committees together, and anyone who wanted to be a part of it, I said come aboard, the more the merrier. And I don't know if that was necessarily always true in this situation. And again, it's constructive criticism that I think...this is something very important, very personal to

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every taxpayer, because this touches every taxpayer. And as you can see, we have a full room. And I think the more we can include, the better that is. And so I understand... [LB405]

DAVE HEINEMAN: And I think that's where we're at today and why we're having the hearing. [LB405]

SENATOR HARR: Yeah, and I think we're going to go forward with that too. Yeah, going forward, and I think that's great. [LB405]

DAVE HEINEMAN: And could I add one other thing? You know, you asked about...let me talk about the expertise that you have in this committee. [LB405]

SENATOR HARR: Not me personally. [LB405]

DAVE HEINEMAN: Well, I'll use you if you want. But let me just...Bill Lock, Mary Jane Egr Edson, a former Tax Commissioner. Senator Hadley has got a former state Tax Commissioner on his staff. I will volunteer my Tax Commissioner and my Policy Research Office, and I'll meet with you guys any time you want. But I also understand the process. We propose a bill, and you're a separate branch and then you act on that. [LB405]

SENATOR HARR: Okay. And I appreciate that. [LB405]

DAVE HEINEMAN: And I'm willing to work with you in partnership or however you want. [LB405]

SENATOR HARR: And I really do appreciate that because I do think if this is to be done properly, I think it has to have support across the political spectrum. [LB405]

DAVE HEINEMAN: Right. [LB405]

SENATOR HARR: So I appreciate you saying that and I think if we can work together that would be outstanding. So thank you for volunteering both yourself and your staff. So when we look at this, you have called this revenue neutral, which I appreciate and I think this is a great way of doing it. But tax burden, you know, we have to be very careful with semantics. I don't want to call it a tax shift or a tax...you know, change in burden. But what we do want to know is, some are going to pay more, some are going to pay less; do you have any charts that show who pays more and who pays less? Is the idea that businesses pay more and individuals pay less, or how is this going to occur? [LB405]

DAVE HEINEMAN: Well, let me try and answer that the best I can, that we have 1.8

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million people in this state and a whole lot of businesses, and it's going to impact them differently. I've talked to a number of business leaders, and I said, well, go calculate this; what does it mean if you lose some exemptions but you don't pay corporate tax and your employees aren't paying state income tax? Some of them have told me, we're going to lose a little bit of money; but you know what, at the end of the day, I'm willing to pay more because I want a fairer tax code; I'm tired of asking my accountants and lawyers to go mine the tax code for another exemption to make a profit. Others are going to look at it and say, no, no, that's too much that we have to pay. But again, we're primarily talking about business sales tax exemptions, so that's where it's going to occur. Now I want to see our workers in this state and our retirees, every individual, if they have more money in their pocket I think they're going to do one of two things. They're going to invest it with Senator Schumacher, because he knows how to make a lot of money, or they're going to spend it. Or maybe they're going to invest with you because you're getting there. But that's what taxpayers do and that's good. So it is hard to determine all of this with certainty, but we tried to be revenue neutral because this is not about trying to say we're not going to have enough revenue to fund government. And it's not about the budget; that is a separate debate. Now if we spur economic activity and we generate additional money, I know Senator Sullivan would like to have it over there in the Education Committee to do more on education than even we proposed, so. But we're trying to make sure it's not about either one of those, because the way we account for it in government, it has to be a static model. [LB405]

SENATOR HARR: Okay. Well, and I'll get to that when I get to some questions on the fiscal note. [LB405]

DAVE HEINEMAN: Okay. [LB405]

SENATOR HARR: But let's look at, and I'm going to...sorry I read the legislation, but if you get to page 6 of the legislation...do you have a copy in front of you? [LB405]

DAVE HEINEMAN: No, I don't, but it's probably a better question for the Tax Commissioner, but go ahead. [LB405]

SENATOR HARR: Well, all right. I'm not sure if it is, to be honest with you. [LB405]

DAVE HEINEMAN: Okay. [LB405]

SENATOR HARR: If you look at page...and let me give this to you. [LB405]

DAVE HEINEMAN: Okay. [LB405]

SENATOR HARR: If you look at page 6, and it goes on to really page 7... [LB405]

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DAVE HEINEMAN: Okay. [LB405]

SENATOR HARR: ...there's a lot of crossed-out language. And it removes the requirement that sales tax exemptions be organized into categories. Why are we removing that requirement? [LB405]

DAVE HEINEMAN: I think that's simply to reflect those exemptions would go away... [LB405]

SENATOR HARR: It doesn't though. [LB405]

DAVE HEINEMAN: ...but I'll let the... [LB405]

SENATOR HARR: Yeah, talk to Doug about that? Okay. Okay, I will follow... [LB405]

DAVE HEINEMAN: I mean, the bill...and we've produced a two-page summary, because everybody wanted to know which exemptions would stay and which ones would go away. But if I'm not accurate on that, hopefully he can answer that for you. [LB405]

SENATOR HARR: Okay. Yeah. And I'll be honest, when I read that, when you start getting to Section 46 on that bill and the Nebraska Advantage Act, you lose me pretty quickly, as well, so. [LB405]

DAVE HEINEMAN: I know exactly what you mean. [LB405]

SENATOR HARR: I am not a tax lawyer. So the fiscal note, let's talk about that. [LB405]

DAVE HEINEMAN: Right. [LB405]

SENATOR HARR: Each year it has an escalating deficit. Both yours and the Revenue Department's...or our Fiscal Office have that growing. [LB405]

DAVE HEINEMAN: Right. [LB405]

SENATOR HARR: And I think the answer you're going to say is because we're using a static model, and in a dynamic world there will be new industries coming into Nebraska to make up that difference. Is that a fair assumption? [LB405]

DAVE HEINEMAN: No, that's not totally what I would say, okay? [LB405]

SENATOR HARR: Okay. [LB405]

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DAVE HEINEMAN: We do have to have a static model but what we try to do is phase in how the tax bill would work and that some exemptions would phase out beginning October 1, as I recall, 2013--but you want to start the tax year on January 2014. And we did that to be conservative to make sure that we would still have the revenues for the state. So you're going to end up initially with more revenue coming in, of which it better be put away in the Cash Reserve. [LB405]

SENATOR HARR: We'll get to that. [LB405]

DAVE HEINEMAN: And the fact of the matter is, when we start getting out four or five years, I get real nervous about those projections, because many of us have been around here for eight years, and the projections that I saw four years ago don't always end up being the case. So, no, no, no, it's more a matter of timing. Now again, I believe it will generate more economic growth, but we take no credit for that, because I don't think we're allowed, the way we do it here in the state, and I understand that. [LB405]

SENATOR HARR: Well, but the out-year deficits are massive, to say it gently. I mean, \$339 million or... [LB405]

DAVE HEINEMAN: That's their best estimate based on... [LB405]

SENATOR HARR: Yeah. [LB405]

DAVE HEINEMAN: ...and people's behaviors are going to change. I'm not willing to bet the ranch on those. [LB405]

SENATOR HARR: Okay, and that's what I'm getting at. But that's a huge sum. [LB405]

DAVE HEINEMAN: Yup. [LB405]

SENATOR HARR: You'd agree with that. And so is it your...I guess my question is, are we supposed to take it on faith that \$339 million is wrong? Or is there an underlying economic model or assumption that you're looking at that says, well, yeah, but because of this shift we're...it's not really going to be \$339 million; it's going to be less? Maybe even we might actually have some taxes...extra tax money coming in based on an assumption, and if so, what is that model or assumption? [LB405]

DAVE HEINEMAN: You know, this is really hard when you get into these areas, okay? [LB405]

SENATOR HARR: Agreed. [LB405]

DAVE HEINEMAN: Let me share with you...let me go back just four years ago. Your

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Legislative Fiscal Office projected a shortfall of \$1 billion in the budget, and I said that was totally inaccurate because that was based on assumptions that would never occur; that Nebraska, we balance our budget without raising taxes--and we did. So you've got to go in and do the best you can on these estimates of what you think is going to happen. But Senator Hadley has experience of this. To try to project forward what the Forecasting Board is going to do, people's behavior, out third, fourth, fifth, sixth year, it's hard. So I think we do the best we can. We make our best judgment. Are we comfortable with that judgment? You do that every day with a bill. [LB405]

SENATOR HARR: Yeah. And when it's this large, though. I mean, that's a large number to have hanging over my head. [LB405]

DAVE HEINEMAN: Well, that billion-dollar budget that was being projected was a large number too, and we took care of that. [LB405]

SENATOR HARR: We did. We did. But we're also taxing differently now, and so we... [LB405]

DAVE HEINEMAN: Right. [LB405]

SENATOR HARR: We're taking...I guess my issue is we're taking a big risk here. The Wall Street Journal would call it a gamble. Others would call it a bold move. [LB405]

DAVE HEINEMAN: Okay. Well, can I help you? [LB405]

SENATOR HARR: I need a sense of comfort that there is a model out there or modeling out there that says, hey, you do this and there's going to be a payoff down the road. I see Joe here from the Tax Foundation. Hopefully, he's going to be able to answer that as well. But my question is, is there modeling out there or how do... [LB405]

DAVE HEINEMAN: No, we're... [LB405]

SENATOR HARR: Is this just best guess, or how do we know? [LB405]

DAVE HEINEMAN: No, I think you study it. They can talk about models or whatever, but let me do it in reverse. It is a risk, a significant risk not to change. [LB405]

SENATOR HARR: Agreed. [LB405]

DAVE HEINEMAN: If we don't change, then we better be prepared to understand what we're saying. We think the current tax system is the best we can do; we're going to have young people continue to leave the state; we're not generating the \$50,000-, \$60,000-, \$70,000-, \$80,000-a-year jobs that we all want; and Social Security recipients and

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retirees are going to leave. So to me there's always a risk, okay. I wouldn't it call it a gamble, because there are too many Nebraskans that are smarter than that, that can figure this out. You're on the Revenue Committee. Again, we know three revenue commissioners who can be part of the process now as we move forward. But at the end of the day, Senator Hadley and I also had a conversation, it needs to be done now in this session, and let me tell you why. Number one, you're down here, you're intently focused. If you go away and we do a study, you come in once a month, but the entire summer and into next January it's uncertainty. We'll be acting like the federal government and you'll have businesses keep cash on the sideline. We need to tell them either we're going to move to a new tax code or, no, we made the judgment, what we have right now is where we're staying. [LB405]

SENATOR HARR: Okay. But again there is a difference. And I agree, we can always do better and we can always grow. But there's a difference between evolution and making an educated guess; and revolution, closing our eyes and saying we think this will work. [LB405]

DAVE HEINEMAN: Well, we're not closing our eyes and thinking it's going to work. [LB405]

SENATOR HARR: Okay. Exactly. We're going in with eyes wide open. So if we're going in with eyes wide open, my question is, what assumptions are we using to offset that? Because...well... [LB405]

DAVE HEINEMAN: Well, look at the states that don't have an income tax or a low tax. They're growing faster than us and that's a fact. [LB405]

SENATOR HARR: Well, yeah, and I would agree...well, yeah. So... [LB405]

DAVE HEINEMAN: And then you've got to look at the exemptions and you do your best judgment on what the value of those is. And again, I would argue, we ought to be conservative; don't overestimate those. [LB405]

SENATOR HARR: Okay. So...but what I'm getting at is, and I'm not being very clear and I apologize, but we know taxes affect the way we act. Correct? [LB405]

DAVE HEINEMAN: Yes. [LB405]

SENATOR HARR: That's the very reason why we're here today. [LB405]

DAVE HEINEMAN: Yeah. [LB405]

SENATOR HARR: That's why everyone in this room is here today. [LB405]

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DAVE HEINEMAN: I want to make sure every one of our kids and our grandkids has a job in this state. [LB405]

SENATOR HARR: Thank you. So we know it affects how we act. Is there modeling that says...because this is a static, right? This fiscal note is static. And your argument is dynamic. [LB405]

DAVE HEINEMAN: No. My argument is if you scored it dynamically I think you could indicate we would potentially produce more revenues because we'd have more jobs. [LB405]

SENATOR HARR: That's what I'm getting at. [LB405]

DAVE HEINEMAN: But in no way, shape, or form am I suggesting we count that revenue, because that's not the way we work in government. [LB405]

SENATOR HARR: And I agree with that, and I agree there's real world and there's government. So my question is: dynamic. What assumptions are you using in that dynamic modeling? [LB405]

DAVE HEINEMAN: I guess I'm not...what assumption, what do you mean, and maybe the Tax Commissioner can answer that. [LB405]

SENATOR HARR: Well, so... [LB405]

DAVE HEINEMAN: But, you know, I look at...again, you look at the various studies out there and which states are growing the fastest. And again, one of the items that prompts that faster economic growth is a zero or low income tax rate. [LB405]

SENATOR HARR: Okay. [LB405]

DAVE HEINEMAN: Now, on the other hand, you've got to balance it with other things. I mean, I'm like all of you; I'm not...I can still hear out there everybody wants to talk about property taxes. But I want to remind everybody on property taxes, because I've served in local government. You don't set property tax rates and neither do I. They are set by school boards, city councils, and county boards. School boards do about 65 percent of it; cities, 15; and counties, 15; and then you've got NRDs and a few others. So now we've got a property tax relief program that's direct property tax relief that we'd had some impact. But it's hard, from the state level, to impact property taxes unless you address the issue of local government spending. [LB405]

SENATOR HARR: Okay. All right. So, okay, I think I have the answer. I guess that

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makes sense. The next question I would ask you then is, you have a lot of experience. You have been a West Point grad, Army Ranger, Treasurer, Lieutenant Governor, Governor, longest serving Governor. So based on that, on your expertise, your experience and your education, which do you think is better, LB405 or LB406? [LB405]

DAVE HEINEMAN: Oh, I don't have any doubt about that. If we can pass LB405, regardless of which exemptions you choose, and you eliminate the income tax, we'll be better off. Now, we developed LB406, though, to set the example, because you're going to go through this just like we did. You start going down the list of exemptions and you say, oh, gee, I'd like to keep this one, I want to keep that one. And all of sudden, you keep them all, and we don't make any progress. So the closer you can get to \$2.4 billion, because that eliminates the income tax, the better off we'll be. [LB405]

SENATOR HARR: Okay. [LB405]

DAVE HEINEMAN: Now, you know, maybe we don't get there. That's the conversation that we've got to have. [LB405]

SENATOR HARR: Okay. And we do have a lot of people here and I don't want to monopolize time too much, but there is one exemption that...well, there are a couple that bother me. Input to manufacturing. I think, Joe, again from the Tax Foundation will be here to talk about that, and there are others who say that's probably not a good way to do it, and there'll be those to address it. But my question is this taxing of nonprofits, which include churches. That kind of...I mean, this goes back to the very fundamentals of our society. I mean, the Pilgrims left because of religious persecution and one of the ways of religious persecution at the time was they were taxing. And so my question is, we all agree that taxing affects behavior. [LB405]

DAVE HEINEMAN: Right. [LB405]

SENATOR HARR: And so if we now start taxing our private schools and our religious institutions, are we going to...are we treading...getting close to that line of controlling and separating that line between church and state? [LB405]

DAVE HEINEMAN: You know, I don't know about that, for sure, because I think Nebraskans and Americans have fairly strong opinions. But again, if that's not an exemption we want to eliminate, I have no problem there. Now, let me bring up before I forget, there's one exemption in there that we ought to get rid of for sure. We exempt sales tax on food of political fund-raisers. I have no idea why the Legislature did that but I think we ought to get rid of that one. [LB405]

SENATOR HARR: That seems very fair. Okay. Well, I want to thank you for the conversation. I look forward to talking to you some more. I guess just a lighthearted

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question: What's your favorite color? [LB405]

DAVE HEINEMAN: You know the answer to that one. I'm Big Red every day. [LB405]

SENATOR HARR: There you go. All right, thank you very much. [LB405]

DAVE HEINEMAN: And, Senator, could I add, I want to thank you for the questions, and I do want this discussion to continue. I've told Nebraskans, I've talked to a lot of farmers, ranchers, manufacturers. No one wants to lose their exemption. I understand that. But on the other hand, I think we can have the conversation about is there a better tax policy; and if there is one and you've got to give a little bit, will you? [LB405]

SENATOR HARR: Yes, I agree. [LB405]

DAVE HEINEMAN: And that's why I hope and think we could all have this conversation, and I appreciate it. [LB405]

SENATOR HARR: And that is my hope as well. Thank you very much for this dialogue. It's been very wonderful and it's been enriching for me, so thank you. [LB405]

DAVE HEINEMAN: Thank you, sir. [LB405]

SENATOR HADLEY: Senator Hansen, I believe you had questions. [LB405]

SENATOR HANSEN: Thank you, Governor. It's good to have you here, and I'm glad Senator Ashford is here too. In 1967, it was the first Governor's race that I got to participate in and I really enjoyed that. In those 50 years since then, almost 50 years, there was no Super Bowl, there was no...all beer was heavy; I was taller and had a smaller waist. Things change. And I think it's...I appreciate the attempt... [LB405]

DAVE HEINEMAN: Senator Ashford, he still looks young and thin, right? [LB405]

SENATOR HANSEN: Yeah, he looks about the same, a little gray. [LB405]

SENATOR ASHFORD: Keep going. (Laughter) [LB405]

SENATOR HANSEN: But I appreciate the attempt to look at this. And I'm a disciple of Rich Pahls, and I started hearing this, you know, about the deductions...or the exemptions on sales tax, and I was really interested in having this discussion, and I appreciate it. But back in 1967, there were Tiemann fans. There were Tiemann fans that when we were promoting him, you know, he said, I can get rid of the property tax, of the state property tax. And we had the state property tax, we had local property tax, you know. And so that was a tax shift. After 50 years, surely we can call it a tax shift now. It

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was a tax shift. So people...that's why he didn't get reelected. People in the cities didn't like their income taxed. But, you know, things change. Sales tax was about 2.5 percent as I remember. Would you accept the figures that the costs to agriculture have gone up about fivefold in that time? [LB405]

DAVE HEINEMAN: You would probably know better than I. So if you say that, I'll accept it. [LB405]

SENATOR HANSEN: I'm not involved in farming but I do know...you know, I have a lot of friends that have. [LB405]

DAVE HEINEMAN: Right. [LB405]

SENATOR HANSEN: And I've been contacted by a few of them too. [LB405]

DAVE HEINEMAN: So have I. [LB405]

SENATOR HANSEN: I get a lot of e-mails from people in North Platte and Lincoln County that are railroaders, teachers, the list that you had earlier, you know, that want their sales tax...or their income tax eliminated. But every one of those people I have to contact and explain to them, you know, if we raise sales tax and eliminate some of these exemptions, things may change. Life may change too. So, you know, if we don't want to call this a tax shift now, it's a tax reform, I'm fine with tax reform. [LB405]

DAVE HEINEMAN: It's a trade-off. [LB405]

SENATOR HANSEN: It's a trade-off, yeah, okay. [LB405]

DAVE HEINEMAN: I've tried to be up with everybody. You've got to give up exemptions to get to a low income tax or no income tax. Now if you don't think that's a worthy goal, you're not going to be willing to give it up. I think it is. The question is, how many exemptions? [LB405]

SENATOR HANSEN: And how they're handled. And one example: Senator Harr said he bought a combine for \$300,000. It must have been a pretty well-used one. I think they cost more like \$600,000. And then the sales tax on that is \$33,000, and then they turn around and they also pay personal property tax to the county. Would you ever accept an idea like maybe taking some of that sales tax and eliminating the personal property tax, giving it back to the county for county expenses? Because the counties have to operate. [LB405]

DAVE HEINEMAN: I think it can be part of the conversation. I mean you've got to start somewhere. And I'll go back...Senator Harr asked the question, you know, I think

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constructively trying to get this out here and begin the dialogue, okay? You've got to start with a bill. And ever since the bill has been introduced, as I travel all over the state, people are giving me ideas. Again, the one I hear most frequently was eliminate them all. And I tried to share with you today, we went and calculated, you take the state sales tax down to 3.5. So all of that ought to be part of the conversation, because we've got a balance in our state. Agriculture is going to be more concerned about property taxes and less about income. The rest of the state is probably more concerned about income in our urban areas and less about property taxes. Although they care about property taxes, don't get me wrong. I hear that every day. [LB405]

SENATOR HANSEN: And we don't want machinery sales outside the state too. I mean, we've got to be competitive in that business too. [LB405]

DAVE HEINEMAN: I asked the Tax Commissioner about this, and he can address it. But technically, you go across the state lines and do that, you're going to pay a use tax in Nebraska. [LB405]

SENATOR HANSEN: Because they have bricks and mortar in the state. The...I talked to a farmer the other night, and he was talking about seed, and he's a corn farmer. And they buy all their seed direct from Syngenta or DeKalb or any of the big corn people, and it comes from out of state. So would that be sales taxed if it was brought from outside of the state? [LB405]

DAVE HEINEMAN: If we eliminate it. [LB405]

SENATOR HANSEN: I mean, that's how they do business. They do it now. [LB405]

DAVE HEINEMAN: If you eliminated the exemption. [LB405]

SENATOR HANSEN: Eliminate the exemption, yet they buy it out of state. Is that use tax too then if it's bought out of state? [LB405]

DAVE HEINEMAN: Oh, Syngenta has...Doug was saying has a legal presence here, so they're going to be taxed. I mean, those are all...and again... [LB405]

SENATOR HANSEN: Yeah, yeah. It's good to have the conversation. [LB405]

DAVE HEINEMAN: Yeah. [LB405]

SENATOR HANSEN: The people back there are probably going to fill in some of those gaps for me too. [LB405]

DAVE HEINEMAN: And there are a number of details exactly how to do this. Now, on

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the other hand, I do want to bring out, as tough as it is, other people are saying to me, in construction, homebuilding, and all the rest, well, why are my inputs taxed; then I ought to get a sales tax exemption. [LB405]

SENATOR HANSEN: Thank you, Governor. That's all I have for now. Thank you. [LB405]

DAVE HEINEMAN: Okay. [LB405]

SENATOR HADLEY: Senator Schumacher, did you...? [LB405]

SENATOR SCHUMACHER: I just have a couple. [LB405]

DAVE HEINEMAN: I thought you would. [LB405]

SENATOR SCHUMACHER: I wouldn't want to disappoint you, Governor. But if I knew how to make money so well I wouldn't be sitting here. [LB405]

DAVE HEINEMAN: Now that's not what I've heard. [LB405]

SENATOR SCHUMACHER: So that we kind of get on the same page as far as some basic definitions, and I hope to be able to tie this into a method to the madness or at least the beginning of the madness. [LB405]

DAVE HEINEMAN: Okay. [LB405]

SENATOR SCHUMACHER: What is your definition of a tax? [LB405]

DAVE HEINEMAN: Definition of what? [LB405]

SENATOR SCHUMACHER: A tax. [LB405]

DAVE HEINEMAN: You know, I'll try to keep it relatively simple. Any revenue the state collects I kind of view as a tax, whether it's a fee, property tax, income, sales, or whatever. Because when I talk to most citizens, when they've got to pay whatever you want to call it, they view it as a tax, and that's generally how I look at it. [LB405]

SENATOR SCHUMACHER: Are we very far apart in saying that tax is a device used by public authority for the compulsory organization of private capital for public purposes? [LB405]

DAVE HEINEMAN: That might be above my pay grade or whatever, but if you're trying to say that we need to tax in order to fund legitimate services of government, I very

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much support that. We need to educate our children. We have kids and others in need that we need to take care of in this state. We have public safety requirements. So there is a certain amount of revenue that we need to have to take care of those services. Now we may get into an argument of how much, but there is a legitimate purpose there. [LB405]

SENATOR SCHUMACHER: So a tax for all those purposes, those public purposes, a tax is a mechanism to get money out of the hands of the private sector into the government sector to do that job. [LB405]

DAVE HEINEMAN: Right. I think just most people don't want it to be too much. [LB405]

SENATOR SCHUMACHER: Okay. Close enough for government work. Okay. [LB405]

DAVE HEINEMAN: Right. [LB405]

SENATOR SCHUMACHER: Okay. What then is a modern tax? [LB405]

DAVE HEINEMAN: What is a what? [LB405]

SENATOR SCHUMACHER: Modern tax. [LB405]

SENATOR SULLIVAN: Modern. [LB405]

DAVE HEINEMAN: Moderate? Oh, modern. Okay. [LB405]

SENATOR SCHUMACHER: Like not old-fashioned but modern. [LB405]

DAVE HEINEMAN: From my perspective, it's to reflect the economy we have today. And let me share a couple examples. You go back to the 1960s...although I want to emphasize for Senator Hansen and others I was at the United States Military Academy in '67-70, and then in the Army when all this was going on. But I think you've got to reflect the fact, if you look at our state today, I've been on 11 different trade missions. We compete in a global economy. We've had two reverse trade missions where we've brought over several...250 businesses and government to our state. I don't think we did that back in the 1960s. In the '60s and '70s it was more regional and national. Now today it's national and international. Having said that, I still think when you look at a tax system, I'm generally for low rates, few exemptions, don't try to pick winners and losers, and make sure you're generating economic growth and preferably faster than others. And that's not easy to predict, but that's helpful if you can get that done. And again, right now, like it or not, the states that are doing the best at that don't have an income tax or a very low rate. [LB405]

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SENATOR SCHUMACHER: How far apart then are we on the definition of a modern tax being a tax imposed to shape economic or social behavior to adapt to current or reasonably anticipated conditions? [LB405]

DAVE HEINEMAN: Well, the one word in there you use I'd be a little careful about, "social," okay? I'm not a big fan of using taxes to force us to do a certain kind of behavior, okay? I've never been a big fan of increasing cigarette taxes, for example. You know, education I think is the better way to promote that smoking may result in cancer or whatever. So when you say "social," I want... [LB405]

SENATOR SCHUMACHER: So would it be a bad thing if this particular bill did have a social impact then? [LB405]

DAVE HEINEMAN: If the social impact was more jobs and higher paying careers, I'm all for it. [LB405]

SENATOR SCHUMACHER: I had this thing looked at, and this was...those definitions were applied, and then our three-step process toward some of the provisions. The three-step process was, what is a current or reasonably anticipated condition that it would be smart to deal with; then what can tax policy do to alter the behavior to deal with the anticipated condition; and finally, how does this bill, LB405, and similar efforts in other states, help or hinder the implementation of that policy. So that's the paradigm that the analysis was looked at. There are some problems, some issues, current or anticipated problems that were identified, one of which you touched on--the global economy. And incidentally, when this was looked at, and I was a little bit disappointed when you said this was kind of something just put together to get the discussion started, because... [LB405]

DAVE HEINEMAN: Well, I don't quite mean that. I mean we're trying to give you a framework of how to move forward, but you've got to have the discussion. I have never assumed on a bill of a tax nature, or frankly, a budget, that what the Governor proposes isn't going to have a lot of change or discussion. [LB405]

SENATOR SCHUMACHER: Well, the comment was: genius, absolute genius. [LB405]

DAVE HEINEMAN: You are an absolute genius? Is that... [LB405]

SENATOR SCHUMACHER: No, but whoever put this together, okay? I think they must have been referring to either you or some smart guy that helped you. And using this paradigm, we looked at the current problem that you mentioned--we're in a global economy. And in the global economy, one of the underlying scorecards is a current account deficit of the United States with a current account balance. From 1980 to 2008, it was getting really, really bad. In 2008, we were down to a current account deficit of

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\$800 billion, and the current account reflects the total obligations or kind of almost a checkbook of the United States and our entire economy compared to the world. I think that's probably come up in some of the discussions and things. And we were doing really bad. We're still doing not so hot. We're still cranking away at \$40 billion a month more that we're spending or in the global economy than we're taking in. So we're running a high current account deficit. It's a problem. And that's a current problem. It's a reasonably anticipated future problem; it's something we've got to deal with. And that's apart from the federal tax problem that we're going to get into in a second here. What can tax policy do to alter the behavior to deal with that anticipated condition? What can we do with tax policy? By building in sales tax on inputs and in on each transition along the way, we're going...on a tangible item, not a service but a tangible item--this is what was thought to be pretty much genius because this was combined to tangible items. That drives up the cost of the tangible item. Then the laws of supply and demand come into play. Higher costs? People aren't going to buy the tangible item and the demand for tangibles is reduced. That...since lots and lots of the tangibles that we're bringing into our society are imports, that reduces pressure on the current account, because we're not spending as much overseas. And also, just as a sidelight, they pointed out, if there's fewer tangibles, there's fewer things to fill up garbage dumps when we're done being tangible. So that seems to float pretty well. Was that part of the intent? [LB405]

DAVE HEINEMAN: You're getting more sophisticated than I probably thought and in our discussions. Let me share...could I share a couple things with you where I'm proud of our state and I'm proud of the Legislature and the work that we've done together. You know, I said this on national TV the other day, and you've heard me say it in the state many times, we believe in a novel financial concept they've never heard of in Washington, D.C. We don't spend money we don't have. It's kept us out of trouble. We built a strong Cash Reserve, and when we had the down years of 2008, '09, '10, in that arena, we used part of that \$550 million Cash Reserve that we had. That was the problem back in the early 2000s; there was no Cash Reserve. So I think in Nebraska we're smarter than that. Our citizens are smarter than that. Our farmers have stronger balance sheets than they've ever had before; so do our businesses; so do we in government, and that's part of this equation too. But the global nature is the hardest to figure out, I think; but on the other hand, it's also why we're out there talking to China, Japan, Canada, Mexico, all the other countries. [LB405]

SENATOR SCHUMACHER: And then we go to step two, that genius: to the extent this not only is done here but spreads to other states, at least genius in the opinion of these folks. It promotes vertical integration which limits the demand for inputs from foreign countries. If our manufacturers, for example, import a gizmo from China to put it in the gizmo they're making, they're going to pay sales tax on it. However, they create a gizmo-maker as a subsidiary or in their in-house, that gizmo is not going to be taxed because it's made here with American labor. Is that part of the thinking? [LB405]

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DAVE HEINEMAN: Again, you're getting pretty deep, okay? And this is why I know you're making more money than the rest of us, because you think about these things. You know, in listening to Nebraskans, the overwhelming concern that I hear that was really the focus of why I wanted to do this was we're having too many people leave the state--young kids. They can't get the right job here. It only pays \$25,000 or \$30,000 instead of \$50,000, \$60,000, \$70,000, 80,000, to take care of their family. They wanted a career in a field that we don't have. And I just believe if we've got a better tax policy, that will help in that regard. The other thing is, I just want to share with you that I have the opportunity every day to be out there seeing what's going on with young entrepreneurs. It is absolutely amazing what's going on down here in the Haymarket, what's going on up in Omaha, what's going on in our farms, in our small communities. I was in Utica, Nebraska, about six months ago. It was a small business. I would have never dreamed; employs 11 people; he's gone from 1 person to 11 in the last seven or eight years. He ships almost everything overseas--sitting in Utica, Nebraska. The creativity and the genius, if you want to look at it that way, of Nebraskans and Americans is absolutely awesome. So that's what's driving me, the bottom line, and I'm not trying to figure out every little angle relative to it. [LB405]

SENATOR SCHUMACHER: Well, we're trying to get a general picture of what the big impact of this movement kind of is. [LB405]

DAVE HEINEMAN: Right. [LB405]

SENATOR SCHUMACHER: And to the extent it spreads to other states, as some folks have testified today, indicate what we're having is...well, let's go back to the analytical paradigm here, another problem: a bad situation with our federal deficit. [LB405]

DAVE HEINEMAN: Um-hum. [LB405]

SENATOR SCHUMACHER: There's three ways to solve the problem, basic ways: raise taxes, cut spending, inflate the currency. There's not many more ways out of that hole. To the extent that the state governments vacate the income tax base, it opens the door for an element of federal tax increases to take up that base and works on the balancing of the budget process. [LB405]

DAVE HEINEMAN: Well, let me try to address that for you. Maybe there's a fourth solution I think we're seeing going on right now. The federal government will take no action and then just let this thing go on. We're going to have the sequester go into effect. They've known about it for over 500 days now and no one seems to want to come together. That would never happen in Nebraska, just talking of the conversation with Senator Harr earlier on budgets, everything we do. I've been talking to Senator Sullivan for several months now about education and the amount of money that we might have for special education and state aid to education. I think the problem at the

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federal level is they don't talk in the same manner that we do. I am very concerned, however, I will tell you, Senator Schumacher, what will happen at the federal level that impacts us. One of the things I think some of you brought up earlier was the Internet sales taxation. That really needs to come from the federal government. Now I don't think it's \$100 million; I think it's somewhere between \$25 million to \$35 million, and we can go put the best estimate on that we can. But we were told that maybe that was going to happen with the last tax bill. It didn't. But if you talk to governors when we're together, and I went to an editorial board with the Washington Post about eight months ago, the number one thing we told them: Just make a decision. We won't agree with everything you do but make a decision; give us a budget so we can react. We would never do that. Think what would happen in the state of Nebraska if you walked out of this legislative session without deciding the budget. We would never do that. That's not the way we operate. So I worry about it but I don't know what the feds are going to do. [LB405]

SENATOR SCHUMACHER: Well, that's a little far away from here. But if they don't do spending and taxing, then the fed will take care of it with inflated currency. But that's neither here nor there. [LB405]

DAVE HEINEMAN: Senator, just so you know, I think it's more likely that the federal government is going to throw more things our way, for example, that don't impact the federal budget. And number one on that would be Medicaid. They're going to shift more and more of those Medicaid costs to the state. It looks like they save money, so. [LB405]

SENATOR SCHUMACHER: Okay. Then the next point that this kind of analysis showed up that, what stood out like a...fairly boldly, that this drives up the cost of production agriculture. And putting that in the analysis, we have a world population of 7 billion. It's going to be 9 billion unless something really bad happens. It's probably going to exceed our distribution capacity no matter what our production capacity is (inaudible) for the end or it becomes 9 billion. So that's a distinct problem. And some, at least these folks, have...and they're not production agriculture friends, said, look it, you can feed a lot more people if you don't run it through a cow first. I think they said five or seven people if you run it through a cow. And to the extent we can increase the cost on production agriculture, we decrease the need for running it through the cow, and we encourage green...eating Cheerios, I guess, so theirs seems to be. And finally, a little... [LB405]

DAVE HEINEMAN: I just want you to know I'd be glad to have a hamburger or a steak every single day. [LB405]

SENATOR SCHUMACHER: Me too. Me too. In fact, if you couldn't have a steak, that would be one reason not to move to Nebraska. But nevertheless, that is something that flows from this. And finally, and this is not finally, but it's finally for here today in this because I'm taking too much time, the problem that's out there, at least, a lot of people

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think is out there, is carbon in the atmosphere. Some debate, but a majority of the folks kind of think there's a problem and it's going to get worse. And cap and trade, which the bottom line on that is, is to raise the cost of power and deter, again supply and demand, the utilization of power, driving things toward simpler ways of doing things or something. This...the phrase was cap and trade "light," because it drives up the cost of power and dissuades the utilization of coal. [LB405]

DAVE HEINEMAN: I don't agree with that at all and I'm not quite sure how you got there. I don't support cap and trade. You know, like you say, I'm not quite sure how energy policy gets into tax to that extent. [LB405]

SENATOR SCHUMACHER: But to the extent NPPD has to pay for its coal. Santa Claus is not coming to NPPD. Somebody has got to...it's going to have to be passed through to the customer. [LB405]

DAVE HEINEMAN: Okay. But let me just address this, because I met with NPPD and OPPD the other day, okay? I think we have a legitimate concern in this state that our public utilities over the last few years have allowed the cost of energy to go up rather dramatically, relatively speaking, to our state. We used to have about the lowest...we were in the bottom five, or top five, however you want to look at it, lowest energy costs. We've now slipped to 11th or 12th long before this tax policy was even proposed. So they've got some work to do themselves to bring the cost of energy back in line for a public utility state like we have. [LB405]

SENATOR SCHUMACHER: But this, when it passes through, this will contribute to the cost of energy and particularly on running irrigation pumps and things like that. Higher energy costs may be a supply and demand axe and maybe consumption of carbon goes down. [LB405]

DAVE HEINEMAN: I think again that's kind of why we're having the conversation and today we don't know where we're going to end up, but I will tell you, I still think you've got to make a decision here. Are we going to create more jobs, higher paying jobs, better opportunities for our kids and our grandkids, with a better tax policy that I would argue no income tax or low tax rate, or do you want to continue the policy we have right now? Again, I don't travel this state and have people running up to me and saying, Governor, we've got the greatest tax policy in the world. As a matter of fact, I can't recall a single Nebraskan telling me that. Now, maybe some of the groups who are going to come up here today have changed their mind and they'll tell you that. [LB405]

SENATOR SCHUMACHER: I haven't run into anybody that likes taxes either... [LB405]

DAVE HEINEMAN: Right. [LB405]

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SENATOR SCHUMACHER: ...but then they don't want to get rid of the other side of the coin. Thank you for humoring me, Governor, and we'll carry on the discussion. [LB405]

DAVE HEINEMAN: Senator Harr and I would like to invest with you, if that's okay? [LB405]

SENATOR HADLEY: Governor, one of the things about being a fair and equitable Chair is that most of the questions are asked by the time I decide to ask questions. But I do have a few questions that I would like to ask. You talked about the global economy and even interstate economy. Is it a good tax policy to tax those items that people have to use in your state? [LB405]

DAVE HEINEMAN: Use in what? [LB405]

SENATOR HADLEY: Use in the state. I mean that...somebody is building a house in Omaha. [LB405]

DAVE HEINEMAN: Uh-huh. [LB405]

SENATOR HADLEY: If you want to have a house in Omaha, it's got to be built in Omaha. So you tax the materials, the shingles, the... [LB405]

DAVE HEINEMAN: Right. You tax those materials but others are exempted. [LB405]

SENATOR HADLEY: But the others are exempted because they might be competing against a firm in Iowa to sell to some consumer in Missouri. And if we raise that, our costs, to those producers, that gives them an unfair advantage in Iowa because they're not taxing inputs. Does that make sense that...? [LB405]

DAVE HEINEMAN: Here's what I would want to be careful about, okay? The simpler we can keep it, the better off we're going to be, otherwise we're going to have the largest Department of Revenue staff we've ever had. And so trying to figure out totally where those goods are used all the time is going to be very difficult, particularly in this technology-driven global free market economy. So, I mean, that's a challenge. [LB405]

SENATOR HADLEY: Well, and I understand that, Governor. But I think companies are going to make that decision... [LB405]

DAVE HEINEMAN: Um-hum. [LB405]

SENATOR HADLEY: ...because they have the ability to move capital to different states. And if I am producing XYZ in Nebraska and my costs go up and I cannot be competitive in selling, I might move my capital to some other state. [LB405]

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DAVE HEINEMAN: Okay. Let me try to address that. [LB405]

SENATOR HADLEY: Okay. [LB405]

DAVE HEINEMAN: I think there are two issues there: capital and talent. Both are more mobile than we've ever seen. And, for example, when Nebraska companies try to hire someone from Texas and Florida, the first question they ask is, how much more are you going to pay me, because I don't pay an income tax where I'm currently living. And so typically what happens, they may not employ them because then that affects their entire salary structure. But the same thing with capital. I mean, we live in a different marketplace today, so. And I don't want to...I want to be very clear, I don't want to create policies that cause people to move to other states. Now it's one thing to say it, it's another to do it. I mean, we've all been around long enough; everybody who loses a tax break is going somewhere else. That's the first thing they're going to tell us. [LB405]

SENATOR HADLEY: I would agree, and I guess that goes to my second point, Governor. There's always a risk and reward in making these kinds of decisions. And that, I do think about that, because doing away with an income tax is a very long-term impact, because I think once you do away with it, it's very difficult to unring the bell four or five years down the line and say, oh, golly, we might have made a mistake getting rid of the income tax; how do we get it back? Would you agree with that, that once you get rid of it, it's pretty tough to get it back? [LB405]

DAVE HEINEMAN: Generally. But there's a risk, as I said earlier, of not doing anything. [LB405]

SENATOR HADLEY: Sure. [LB405]

DAVE HEINEMAN: And so if that risk is too great for the committee and the Legislature in our state, again maybe you don't get all the way to the elimination of the income tax--although I'd prefer it--but you reduce the rate. Now the challenge there, then one of the benefits of getting rid of the income tax is it takes away and deals with that issue that you dealt with last week: Social Security income, retirement income, and military retirement income. If you don't have an income tax, you just solved that problem in a revenue-neutral way; the other way is with the fiscal note. Now, on the other hand, if you get it down lower than it is today, to 2 or 3 percent, that helps. [LB405]

SENATOR HADLEY: Okay. And just a comment, you mentioned entrepreneurs. And I think one of the Tax Foundation's studies said we were number one in start-up...was that...? [LB405]

DAVE HEINEMAN: That was the chamber, the U.S. Chamber. And they did it a little bit

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differently than how the Tax Foundation computes that. From my perspective, of all of the groups out there that rate the states when it comes to tax policy, I think the Tax Foundation is the most respected. Others throw a lot of other things into it. So I know the study you're talking about. I just... [LB405]

SENATOR HADLEY: And I guess my only concern, Governor, is that I guess, from my experience, start-up businesses generally aren't profitable, so they don't pay taxes, income taxes, as a general rule in the first few years. But if we switch now to taxing inputs, they're going to be paying taxes on their inputs to the process even though they are not profitable during those first few years. So I just have a concern about dampening the spirit of entrepreneurship in Nebraska because of changing our tax system. [LB405]

DAVE HEINEMAN: Well, it depends how you write that tax code. Right now, it's manufacturing. I'm not sure all the entrepreneurs would come under that category. [LB405]

SENATOR HADLEY: Okay. And just one last thing and this is just a comment. I do like your comment about...that you made to the Washington Post editorial: Just make a decision. I think that applies here, too, Governor, because I think we have ag, we have businesses, we have other people. If we sit here and string this out for two years, each of those groups...uncertainty is the last thing they want. They can live with...sometimes they can...a lot of times they can live with the decision. [LB405]

DAVE HEINEMAN: Right. [LB405]

SENATOR HADLEY: They may not like it but they may live with it. But they can't stand, well, let's keep these two bills around until May of next year to see if we can do something. Would you agree? [LB405]

DAVE HEINEMAN: I would. And let me just emphasize again, the talent that you have in this room among yourselves and your staff, I mentioned two former Tax Commissioners; I've volunteered my staff and our Policy Research Office; the input and expertise I think we can get from a variety of industries in this state who would be glad to participate in the discussion, from agriculture to manufacturing and every business in between. I think the only challenge is if you get a 50-person committee, you know how hard that is to deal with. But I think we've got the expertise. I think we are far better off dealing with it in this session. It's either a yes, we're going to make improvements, here's what they are; or no, we've made the decision and we're probably never going to revisit it again for another 25 or 50 years. [LB405]

SENATOR HADLEY: Governor, thank you from coming in and joining us, and we certainly welcome you to stay, and we appreciate very much your wanting us to come

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and... [LB405]

DAVE HEINEMAN: I plan to stay. I think it's an important issue. I want to continue to hear from our taxpayers. And again, I just want to say, I believe the debate today is an example of the discussion of what I'm hearing all across the state when I meet with people. They've got ideas. They've got thoughts of how to improve. Some are going to be opposed. But every Nebraskan is concerned about it and they're dealing with it in a very respectful way and I appreciate that. [LB405]

SENATOR HADLEY: Thank you, Governor. [LB405]

DAVE HEINEMAN: Thank you. [LB405]

SENATOR HADLEY: Mr. Ewald. [LB405]

DOUG EWALD: (Exhibit 4) Chairman Hadley, members of the Revenue Committee, my name is Doug Ewald, E-w-a-l-d, Tax Commissioner of the Department of Revenue. I appear before you today as a proponent of LB405. LB405 offers a clear choice for Nebraska. It offers a choice between the status quo and making Nebraska tax competitive with our neighbors. It's a choice between waiting for your income tax refund or keeping that money in your pocket with every paycheck. It's a choice between complexity and simplicity. The debate surrounding LB405 and the choices you make will have a significant impact on whether or not Nebraska continues to improve its tax climate or is content in seeing our children leave the state. To help frame that debate, I would like to highlight the impact of LB405 on the Department of Revenue and our tax incentive programs. The fiscal note shows that the Department of Revenue will realize significant cost savings in fiscal year '15-16 due to the elimination of the individual and corporate income tax. The delay in this savings occurs because the department will continue to receive and process income tax returns and amended income tax returns for the foreseeable future. In addition, the department will need to increase its staff to license businesses for sales tax and ensure that they can comply with their collection responsibilities. I'd also like to note that LB405 will have...the impact will have on Nebraska Advantage. As you know, Nebraska Advantage offers a variety of benefits, but because LB405 eliminates the individual and corporate income taxes, businesses no longer need to use tax credits against their income tax. Their tax liability will now be zero and the burden associated with preparing Nebraska income tax returns will be eliminated. LB405 also accounts for this by reducing the investment tax credit to 5 percent. I would also note there is an increase in the sales tax refund claims filed, or we anticipate there will be, because in order to offset the increase, businesses will turn their credits...they will refund their credits they have...they'll have those refunded to them through the sales tax liability. That concludes my formal remarks. I'd be happy to answer any questions you may have. [LB405]

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SENATOR HADLEY: Questions for Mr. Ewald? Senator Schumacher. [LB405]

SENATOR SCHUMACHER: Thank you, Senator Hadley. Senior couple, 65 years old, joint filers, making less than \$32,000 a year; what do they pay in taxes to Nebraska? [LB405]

DOUG EWALD: What's their tax liability? [LB405]

SENATOR SCHUMACHER: Yeah. [LB405]

DOUG EWALD: What is their...I mean, what are they... [LB405]

SENATOR SCHUMACHER: What do they pay? [LB405]

DOUG EWALD: Run that scenario again. [LB405]

SENATOR SCHUMACHER: Okay. Joint filers, 65 years old, making less than \$32,000 a year. What do they pay? [LB405]

DOUG EWALD: Probably not a whole lot. [LB405]

SENATOR SCHUMACHER: Probably almost nothing. Maybe don't even have to file, because they don't have to file a federal. [LB405]

DOUG EWALD: That's possible, that could be a situation, sure. [LB405]

SENATOR SCHUMACHER: Okay. How much money is gathered in, in income taxes from the folks who make over \$100,000 a year? [LB405]

DOUG EWALD: Senator, I guess I don't know. I don't have those numbers off the top of my head from that standpoint. So, I mean I can...it's probably a fair amount. [LB405]

SENATOR SCHUMACHER: Would it be fair to say that the cash in pocket, the biggest beneficiaries, in raw dollars, are the folks who make more than \$100,000 a year? [LB405]

DOUG EWALD: From the standpoint that they are the ones that are paying, we have a highly progressive income tax today, sure. [LB405]

SENATOR SCHUMACHER: To the extent that it's revenue neutral, and lots and lots of money will not be paid by the folks making more than \$100,000 a year, who picks up the tab? [LB405]

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DOUG EWALD: Well, I guess...I can't ask questions, but I guess I don't agree...I mean, you're assuming those paying over \$100,000 aren't going to pay more in the way of sales tax or... [LB405]

SENATOR SCHUMACHER: Well, I mean, let's take that point a little bit there. On \$250,000, I think we had a general rough figuring before, that the amount of money would be \$15,000, give or take. Fifteen thousand dollars, figuring a 7 percent rough sales tax, would mean they would have to buy...what is that...\$200,000 more in taxable sales off of that \$15,000 that they saved. How does that work? [LB405]

DOUG EWALD: That's probably not too likely. [LB405]

SENATOR SCHUMACHER: Okay. So bottom line, unless you're in one of these industries that are directly affected, if you're making income into that six figure, seven figure category, you're coming out pretty darn good under this plan. [LB405]

DOUG EWALD: It's a model. It's an option that's been posed to...by the Governor and to this committee to determine what's fair. [LB405]

SENATOR SCHUMACHER: Okay, okay, so...I'm just trying to...you know, because some of us were dumb enough to tell people that we weren't going to raise their taxes. So I'm trying to find out how many people are going to go down in taxes, and what they have to pay to the government, what the government takes from them, either in direct taxation or in hidden taxation because we've got a pyramiding thing or it's hidden in their power bill or things like that. So, if the people...\$100,000...the six figure and the seven figure income people making less and it's revenue neutral, who gets stuck with the difference? [LB405]

DOUG EWALD: Well, I guess if you look at the bill, the bill tells you exactly what is no longer going to be exempt. [LB405]

SENATOR SCHUMACHER: And who, in Nebraska, who is going to get stuck for paying that bill? I mean, well, let's not just say, well, the power companies because we're not exempting coal anymore because we know they're not going to eat it. Who ends up picking up the tab? [LB405]

DOUG EWALD: Well, I guess...again, Senator, that's a...LB405 is a bill that deals with tax policy. The Governor has thrown it out there; Senator McCoy, and that is what this committee has a challenge of... [LB405]

SENATOR SCHUMACHER: Okay, so is the answer, somebody other than the people making \$100,000 or more? [LB405]

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DOUG EWALD: Yeah, I guess that depends on what the bill looks like at the end of the day, Senator. [LB405]

SENATOR SCHUMACHER: But this is the bill we're discussing today. [LB405]

DOUG EWALD: That's fair. [LB405]

SENATOR SCHUMACHER: Okay, thank you. [LB405]

SENATOR HADLEY: Senator Harr. [LB405]

SENATOR HARR: Did Senator Schumacher ask all the questions while I was gone? [LB405]

SENATOR SCHUMACHER: I got to; I didn't leave any for you. [LB405]

SENATOR HARR: Well, I got a couple. Let's talk about taxing inputs. And I apologize, I had to step out to use the rest room. Are there many mainstream economists that think it's a good idea to tax inputs? Maybe I should say... [LB405]

DOUG EWALD: I...I guess I don't talk to too many mainstream economists. [LB405]

SENATOR HARR: Only radicals? (Laughter) [LB405]

DOUG EWALD: And I guess I would leave that to Joe Henchman here with the Tax Foundation, he'll tell you, maybe, from that standpoint, from a policy perspective what is the best policy. [LB405]

SENATOR HARR: Okay, but you're familiar with TRAIN modeling? [LB405]

DOUG EWALD: Vaguely. I mean it's...it's a model, yes. IMPLAN is a model. [LB405]

SENATOR HARR: Can you explain it to us? [LB405]

DOUG EWALD: No, I can't. [LB405]

SENATOR HARR: Okay. Well, if I were to tell you that modeling would say that this is risky, would you agree or disagree or have any reason to think differently? [LB405]

DOUG EWALD: If the modeling is risky? [LB405]

SENATOR HARR: Yeah. No, no, not the modeling; the TRAIN modeling said this is risky, would you have reason to believe or disagree with that? [LB405]

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DOUG EWALD: I guess I would have to defer that to some economists that are familiar with that. I think its going to be...any model you run is going to be...the output is going to be dependent upon what you...what the assumptions you put on in the input. [LB405]

SENATOR HARR: Fair, fair, and so you guys have TRAIN modeling within the department. [LB405]

DOUG EWALD: We do. [LB405]

SENATOR HARR: And have you run this tax program through that TRAIN modeling? [LB405]

DOUG EWALD: We have not. [LB405]

SENATOR HARR: And how come you have not? [LB405]

DOUG EWALD: Because it just got introduced. I mean, it's a resource allocation issue, honestly. [LB405]

SENATOR HARR: Okay. Would you be willing... [LB405]

DOUG EWALD: And it's going to take two to three months to do that, probably, depending on. [LB405]

SENATOR HARR: Okay. And why is that if you could explain? [LB405]

DOUG EWALD: Well, we're in the middle of...going through 600-and-some bills; a hundred through Revenue. And the people that run that, my economists within my research area are busy, and they...costing those bills right now, obviously. [LB405]

SENATOR HARR: Okay. Okay, I will accept that. Now when I was doing research for this bill, I was looking for information on your Web site. And the most recent information on a corporate income tax is 2004-05. Do you have more information, or more up-to-date information available that's not on your Web site? I guess a better question is, I'm not trying to play gotcha, but I'm trying to figure out...I'm trying to get the best information... [LB405]

DOUG EWALD: I guess what type of information are you looking for, Senator? [LB405]

SENATOR HARR: What are the corporate income tax rates? What's been collected in the corporate income tax? And it seems to shut off in 2004-05. Is there a reason for that? [LB405]

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DOUG EWALD: Okay. I'm...not that I'm aware of, no. [LB405]

SENATOR HARR: Okay, and we can probably... [LB405]

DOUG EWALD: We can get you the information you're looking for. [LB405]

SENATOR HARR: We can talk off record, and I can get that, we can look at. [LB405]

DOUG EWALD: You bet. [LB405]

SENATOR HARR: Okay. And again, I just...just wondering if there was a reason for it. [LB405]

DOUG EWALD: And I guess I think the Nebraska Economic financing...or the Forecasting Board will meet again later this month and every month when we do the press release it's...it kind of tells you what the... [LB405]

SENATOR HARR: Previous. [LB405]

DOUG EWALD: Well, the previous, but current...what the budget with the forecast is for that particular item, if you're looking for forecast items or if you're looking for actual receipts or... [LB405]

SENATOR HARR: Okay, and that is what I'm looking for. I guess...and, so you take a big picture, we've been kind of in the forest, now I'm going to...or looking at the trees, I'm going to take a step back and look at the forest for a second. And when you look at this modeling that occurring, what I see is, and again, I don't want to use...tax reform, and in this tax reform what I see is that if you are a mobile industry, i.e. accountants, attorneys, professional services, that can skip across boundaries very easily and do for tax reasons, your tax burden is less. However, if you are less mobile, meaning if you're in agriculture, you can't pick up your property and move it to Arkansas, or somewhere else, Texas, let's say, since it's a tax-free state. So...and we do the same with...manufacturing is hard to pick up and move; and we're taxing that. You look at hospitals, which is almost more population based, so, I mean if there's a population, there's a need for healthcare. Was that an intent to shift the tax reform to those industries that are more...or less mobile away from more mobile, or is that just what occurred? [LB405]

DOUG EWALD: I think that is what occurred. I think that this bill, honestly, as you've heard the others testify, was put out there to begin the tax policy dialogue between the executive branch and the legislative branch and to craft a solution that ends up somewhere that both parties can live with. [LB405]

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SENATOR HARR: Okay. This bill also...we in our wisdom, a couple of years ago, changed...I don't remember the LB number, but Senator Fischer's bill on the roads. [LB405]

DOUG EWALD: Yes. [LB405]

SENATOR HARR: You're familiar with that? [LB405]

DOUG EWALD: Correct. LB84? [LB405]

SENATOR HARR: Okay. And we took a quarter-cent sales tax. We are now greatly increasing the amount of sales tax being collected. I guess my question is, how should we account for that new revenue as far as with LB84, in your opinion? [LB405]

DOUG EWALD: Well, I guess, I mean that's a...again, that's a policy decision for you. But that's something, I think, the Governor said he's willing to...I mean that's part of the package here. And there are things that you...if you're saying, okay, we broaden this base and we've already given another \$70 million of roads, and now we're going to give another \$100 million to roads, maybe that quarter cent is three-sixteenths of a cent, or something like that, from that perspective. But that's something that...that's a policy decision that I think if the parties work together you can end up with a common solution that satisfies everyone. [LB405]

SENATOR HARR: Okay. And, I think it's only fair, you're the Tax Commissioner, to ask you this question. As Tax Commissioner, do you think LB405 or LB406 is a better piece of legislation? [LB405]

DOUG EWALD: Well, that's a...again, that's a policy decision. [LB405]

SENATOR HARR: It is, but you're the expert. [LB405]

DOUG EWALD: I'm not policy expert. I mean, I administer the laws of the state that gets passed from that perspective. [LB405]

SENATOR HARR: Yeah. Well, let me restate that. Let me restate the question then. Given the fact, your background, the fact that you have how many years in the business of accounting? [LB405]

DOUG EWALD: About 20, plus... [LB405]

SENATOR HARR: Twenty years. And you've been involved with taxes for how long? [LB405]

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DOUG EWALD: Quite awhile, 20 years, 20-plus. [LB405]

SENATOR HARR: Okay, 20 years; you are currently Tax Commissioner? You oversee our tax laws, correct? [LB405]

DOUG EWALD: Yes. [LB405]

SENATOR HARR: You understand our tax laws as well or better than probably anyone else...let's say 99 percent of the population of Nebraska. Do you agree with that? [LB405]

DOUG EWALD: That's fair, sure. [LB405]

SENATOR HARR: Okay. And you've examined both LB405 and LB406? [LB405]

DOUG EWALD: Yes. [LB405]

SENATOR HARR: Okay. Having looked at both of those bills, based on your experience and on your education, which bill do you think is better? [LB405]

DOUG EWALD: Well, if you're looking to grow the state of Nebraska, you know, one of the things that hasn't been mentioned here was how long did it take to go from 1.7 million to 1.8 million Nebraskans? [LB405]

SENATOR HARR: I have no idea. [LB405]

DOUG EWALD: It took over a hundred years. Over a hundred years to add a hundred thousand people to the state of Nebraska. So, if I'm looking at a policy that...looking at what is happening in other states and where the population and growth is growing, I guess then I would defer to LB405 from that standpoint. [LB405]

SENATOR HARR: So you're basing there is a correlation between taxes and population movement? [LB405]

DOUG EWALD: That's... [LB405]

SENATOR HARR: That's the underlying assumption. [LB405]

DOUG EWALD: Fair enough, yes. [LB405]

SENATOR HARR: Okay. Okay. Well, that is a fair answer then. I guess I have no other questions then. Thank you very much for your time. [LB405]

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DOUG EWALD: I guess, one thing on your question... [LB405]

SENATOR HARR: I figured it out. [LB405]

DOUG EWALD: Okay. [LB405]

SENATOR HARR: You're right. It's because those tales of tax exemptions don't exist. [LB405]

DOUG EWALD: You're right. Senator Pahls's LB962, I think, was last year that said, what we had...the format of...how that tax expenditure report had to be structured; and to the extent that you completely strike a section you no longer have to report on it. Now, if you would keep something in there, obviously, you would maintain that and we would continue to report on those items. [LB405]

SENATOR HARR: Okay. Well, let me ask you then one more question since we're talking. What percentage of small...what is the average taxable income for small businesses in Nebraska? [LB405]

DOUG EWALD: How do you define small? [LB405]

SENATOR HARR: Good question. I would think 30 employees or less. Let's use that. [LB405]

DOUG EWALD: I don't...I don't have that answer off the top of my head. That is something we can go back and look at and look at some different thresholds. [LB405]

SENATOR HARR: Okay, and I think we will have a conversation going forward about this. [LB405]

DOUG EWALD: Yeah, sure. You bet. [LB405]

SENATOR HARR: And I appreciate you being open. You're open to talking, obviously. [LB405]

DOUG EWALD: Oh, absolutely. I mean the Governor has volunteered me; he's the boss. (Laughter) [LB405]

SENATOR HARR: There you go. Yeah. All right, well, I thank you for your time. I appreciate it. Thank you very much. [LB405]

DOUG EWALD: Thank you. [LB405]

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SENATOR HADLEY: Mr. Ewald, intuitively when we talk about corporate income taxes, with the bill we had last year on companies that provide services and the policy we've had for years for companies that provide a tangible product. We basically source income tax, right? I mean, meaning that we...a lot of states...companies pay income taxes in a lot of states. Is that a fair statement? [LB405]

DOUG EWALD: Correct, yes. [LB405]

SENATOR HADLEY: So their tax burden in Nebraska is just related to their product that they sell in Nebraska. Would that be a fair statement? [LB405]

DOUG EWALD: That's...that's correct. [LB405]

SENATOR HADLEY: So now we're going to have a...if we go to a system where we tax inputs, all of their inputs in Nebraska are going to be taxed, whether or not they sell that product in Missouri, Kansas, Iowa, or wherever. Is that correct? [LB405]

DOUG EWALD: Yes, that sounds like an argument to get rid of the corporate income tax. [LB405]

SENATOR HADLEY: I just...so I'm just thinking, just intuitively, I think it's got to raise the cost of that...that these corporations are going to have an increase in the bottom line of the taxes they pay in a given year because of this if it's true that they source their income to other states and now pay 100 percent on their...the sales tax on inputs. [LB405]

DOUG EWALD: Well, I think...LB872, I think you're referring to from last year, really deals with those companies selling those intangible things. They're not selling, you know, the pen or the pencil. They're operating in your state and they might be selling a service or something like that, but they don't have that physical presence here. So in the past, they may not have been able to, or required to portion income to Nebraska. [LB405]

SENATOR HADLEY: I guess, Commissioner, I was thinking more, and I'll pick a...I'm just going to pick a company, Behlen. When they sell grain bins, or whatever they sell in Iowa, they source that income that they make on selling a grain bin in Iowa, they pay Iowa income taxes. Is that correct? [LB405]

DOUG EWALD: Well, to the correct...to the extent that they have a physical presence in Iowa. [LB405]

SENATOR HADLEY: Well, I assume that they've got a physical nexus. [LB405]

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DOUG EWALD: But, okay, if you assume they've got a physical presence in 50 states, they're going to source that income to 50 states, all their sales. [LB405]

SENATOR HADLEY: And I guess my only point is, these corporations that are sourcing this income to other states are not paying the full bore in Nebraska on their bottom line net income because they're spreading it out to other states. But if we start taxing them on their inputs to that process, they're going to pay 100 percent of that sales tax on those inputs in Nebraska. [LB405]

DOUG EWALD: That would be correct. [LB405]

SENATOR HADLEY: The grain bin may go to Iowa or Kentucky or someplace else, but the materials to build...to manufacture that would be taxed in Nebraska. [LB405]

DOUG EWALD: Right, to the extent...under this bill if you tax ingredient component parts and that...that would be correct. [LB405]

SENATOR HADLEY: Okay, and I would guess that's probably one of the reasons that the...technically, the corporate income tax is relatively low in Nebraska. Is it about \$190 million? [LB405]

DOUG EWALD: Actually it's like \$270 (million) now. [LB405]

SENATOR HADLEY: Two (hundred) seventy, or something like...but because the income is being sourced in these large corporations. Second question I have, you have a sentence that's called "a choice between complexity and simplicity." From a Revenue Department concept, is it easier to deal with implementing and, for want of a better term, auditing, checking up on sales tax, or income tax? Which one is more complex for the Department of Revenue to get their hands around that the taxpayer is paying the correct amount? [LB405]

DOUG EWALD: Again, that's a good question. And, obviously, we have a "W"...when you have an employer/employee relationship and you have a W-2 to refer to, we get all those electronically, that's fairly simple for us. We can actually monitor that when the returns come in, match them against W-2s from that standpoint. But it shouldn't overshadow the fact that Nebraska businesses do a fantastic job today in complying with sales tax law and collecting or remitting to the state of Nebraska. On income tax, we audit, really, issues, unless something comes in. Sales tax, we audit industries. You know, we'll look and make sure that things are consistent across the industry to make level that playing field. [LB405]

SENATOR HADLEY: Okay. And one last comment, and this is not aimed at you, but I

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guess it's to the taxpayers of Nebraska. We've had a lot of...we've had some talk today about if I buy something in another state because I can get away from paying a sales tax, we have a "use" tax in Nebraska. And if you look at your individual tax return, there's a line in there that says which items did you buy outside of the state of Nebraska that you brought into the state of Nebraska that you need to pay a use tax on. So, technically, people are breaking the law. [LB405]

DOUG EWALD: Well, I appreciate you helping us to advertise that today here. (Laughter) [LB405]

SENATOR HADLEY: Well, I think it's an important...it's an important thing, isn't it? [LB405]

DOUG EWALD: Any education we can put out there in any format is a good thing for us. But you're...technically, you're correct. And that's one of the reasons, a couple of years ago, we added the use tax line to the individual income tax return. You're correct. [LB405]

SENATOR HADLEY: Because that...and that is very important. If you buy something from Amazon, you buy a hundred dollars' worth of books, and they ship them to you, you should take a hundred dollars times the Nebraska sales tax rate and you put that on your income tax return. And if you're not, you're not complying with Nebraska law. [LB405]

DOUG EWALD: That's correct. [LB405]

SENATOR HADLEY: Senator Janssen. [LB405]

SENATOR JANSSEN: Thank you, Chairman Hadley. Thank you, Commissioner Ewald. I didn't want to take up a lot of your time, or for that matter, Senator McCoy, Ashford, the Governor's time, frankly. I get to talk to you folks quite often and could have asked any of those questions. I want to take a bigger look at this because I really want to hear from the other Nebraskans that showed up here today that want to talk about this bill on both sides of it. Tell me, as a tax policy, and I feel a little bad doing this, putting you in an unfair position sometimes to predict, but what would you see if we take the bill in front of us and we just enact that and we make that law, despite Senator Chambers promising to make it a very difficult session? Other than that, what would you see for the next 5, 10, 20 years down the road as far as a business environment? And you can be vague on that answer. [LB405]

DOUG EWALD: Well, I guess a couple of things with respect to that; number one, what you do and the dates you do it. I mean that's up to the committee from that standpoint. This is designed to set up to begin removing...repealing exemptions on October 1 of this

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year so that we can start building that base, I guess, if you will. And I know we have a lot of smart people around this Legislature and in this building that say, okay, that money should be carved out and put into a trust fund for lack of a better word to...for when we start peeling that off from that standpoint. It's going to have a dramatic impact on the Department of Revenue with respect to businesses. You know, that's going to be a business by business analysis that they're going to have to do. Are they better off; are they worse off? How they, you know, I'm going to eliminate the corporate income tax, I'm going to eliminate the individual and their employees. It's a business-by-business analysis. Do I have tax incentives today? How does that factor in to this? So it is...it's a dynamic analysis that each business is going to have to do on how that impacts them. So, I mean, it...and I don't want to say that to cop out answering your question, but I don't know how I can answer a question for a business. I mean, it's dynamic for them. And, honestly, some of the decisions that the Governor alluded to, we talked to a number of manufacturers and say, you know, before this, and they say, yeah, we're going to pay a little bit more here and there, but we're okay for that because it simplifies stuff for us. We're okay with that. [LB405]

SENATOR JANSSEN: And I'm fine with that. I know there is going to be good and bad in everything. [LB405]

DOUG EWALD: Yeah, yeah, sure. There's good and bad in all tax policy. [LB405]

SENATOR JANSSEN: And I just...I recall Governor Tiemann when the sales tax and reading his obituary recently and talking about people throwing pennies at him at parades. And Governor Heineman is from my community and I'd hate to see him getting chased down the road by pitchforks and farmers. So I'd just want to make sure I can weigh this very carefully before we move forward with this policy. [LB405]

DOUG EWALD: Are you setting this up to get me a little State Patrol help or something down the road here? [LB405]

SENATOR JANSSEN: They're in the back of the room, you're all right. [LB405]

SENATOR HADLEY: Senator Schumacher. [LB405]

SENATOR SCHUMACHER: Just a couple of specific things so I understand how this works. Let's take real world, because that's where we're going to end up with this thing. Nucor Steel, okay, they got a big furnace that melts junk iron in Norfolk and employ a bunch of people at \$60,000-\$70,000 a head; and made quite an investment in the state. And have an ongoing ability to make more investments in states that are business friendly to them. And they've got lots of choices. Okay, let's start their process. Farmer has got a bunch of junk old machinery back behind his buildings. Okay, the iron man comes by and says, gee, there's junk machinery, that's some resource I can make a

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buck on. He buys it from the farmer. Sales tax? [LB405]

DOUG EWALD: Well, I think there's an exemption here for the occasional sale of farm machinery. [LB405]

SENATOR SCHUMACHER: So there is no sales tax on that farm. But if that farmer does it on a...is somebody that generates junk on a regular basis. [LB405]

DOUG EWALD: I mean if that...I guess, I mean, is he a farmer or is he a junk dealer? [LB405]

SENATOR SCHUMACHER: Well, I mean, if we're going to use this process then, you know, we should use the process. So you're saying probably not as long as it only happens once in a lifetime? [LB405]

DOUG EWALD: Correct. But I mean that's part of the tax policy discussion that you can have and tell us what you'd like to do with that. [LB405]

SENATOR SCHUMACHER: Okay, well, I mean, I'm trying to get a picture how this is going to work and who is going to fill out the forms. Okay, junk man now has got a truckload of junk. He takes it to his grinder and they sort out the...this thing from that thing and the good metal from the bad metal and grind it all up. Okay. At this particular point, he loads it on a truck and it is hauled off to Norfolk. Nucor buys the junk, the ground up junk. Sales tax? [LB405]

DOUG EWALD: Sales or use, yes. [LB405]

SENATOR SCHUMACHER: Okay, so sales, they got...now Nucor also has some chemicals when they mix in with the steel so that it makes good ore and it has alloys and things like that; very expensive things that they buy to put into this melted junk. Sales tax on those? [LB405]

DOUG EWALD: Well, if you see if it's not an ingredient component part, I mean, no. [LB405]

SENATOR SCHUMACHER: But this would be ingredient. This would be a little nickel, or a little this, that, or the other thing that they throw in to melt. [LB405]

DOUG EWALD: To extent it's an ingredient component part, yes. [LB405]

SENATOR SCHUMACHER: Okay, so they pay the sales tax on that. They have this big, big electrical thing that just generates a whole bunch of heat and burns up the power lines generating all this heat to melt buckets and buckets and vats of steel. Sales

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tax on that? [LB405]

DOUG EWALD: On the equipment or on the...? [LB405]

SENATOR SCHUMACHER: On the juice, the electricity. [LB405]

DOUG EWALD: Energy used in manufacturing, that goes away, sure. [LB405]

SENATOR SCHUMACHER: Okay. And then when they in turn sell it to a...let's say there is somebody in Nebraska that uses it, bar steel that they made. Sales tax again? [LB405]

DOUG EWALD: They're going to take that steel and do what with it? [LB405]

SENATOR SCHUMACHER: They're going to pound on it and make a Behlen building out of it. [LB405]

DOUG EWALD: Sure, yes. [LB405]

SENATOR SCHUMACHER: Okay, and then when Behlen turns around and sells that building, sales tax again to the farmer or to the... [LB405]

DOUG EWALD: Yes. [LB405]

SENATOR SCHUMACHER: Okay, so the guy in the end for the whole process to work, to make money if it is sold in Nebraska, he's got to pay the sales tax on each of those steps along the way. [LB405]

DOUG EWALD: That would be correct, yes. [LB405]

SENATOR SCHUMACHER: What would be the effective rate of tax on that dollar of steel that the farmer uses to build a shed to put his cow in? [LB405]

DOUG EWALD: Well, like I said, obviously, it depends on how many steps in the process and... [LB405]

SENATOR SCHUMACHER: Well, I mean, what I mean, let's say there are five steps along the way we just described. [LB405]

DOUG EWALD: We've got five steps, depending on the value, if you're adding...you know, you'd be adding 5.5 percent to each step. [LB405]

SENATOR SCHUMACHER: Well, 25, 30 percent sales tax. Okay. Now let's suppose

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Nucor sells that steel out of state where it's got to compete with other people who make steel bars. What is it supposed to do when it moves into the marketplace with this extra...at that point 15 percent input cost on its junk now melted into steel and the guy they're competing with doesn't have that input cost? What...how are they supposed to make that adjustment? [LB405]

DOUG EWALD: That's a business decision that they have to make. [LB405]

SENATOR SCHUMACHER: Okay, so they're down to a point where they have to make business decisions. Now they've got 30 more jobs they want to create because they...and pays average, I think the figure was \$60,000-\$70,000 a year, and make it in this state that doesn't have this...or a state that doesn't have this taxing process and they save a big chunk on inputs, expand their plant in Norfolk and they have this and have to take that business decision when they sell, when do you suppose they're going to create those jobs? [LB405]

DOUG EWALD: Well, I guess it depends on the business analysis they do, how much they're saving in corporate income tax, what they have incentives, it all factors together. [LB405]

SENATOR SCHUMACHER: And if they were to put the pencil to the paper and say, gee, this is going to cost us \$25 million in Nebraska and save us maybe a million dollars in income tax because we won't be income taxed, what do you suppose their business decision would go? [LB405]

DOUG EWALD: I guess it depends on if they're portable or not. [LB405]

SENATOR SCHUMACHER: Well, they can build a new addition onto a factory in a state that doesn't do this, or they can build it in Norfolk. They're very portable with that new deployment of capital. Where do they do it? You're a businessman, you've been in the business; you've been crunching numbers. [LB405]

DOUG EWALD: Well, I guess, it's going to be a business decision to make whether or not they have the work force where they want to go, and from that standpoint, they have the educated work force there today. What they do, it's a business decision. They have to weigh all that. [LB405]

SENATOR SCHUMACHER: All things being equal? [LB405]

DOUG EWALD: That's a business decision. I can't...I don't know their business. [LB405]

SENATOR SCHUMACHER: Okay. Another particular thing, when the ethanol plants spews out the...what they call distillers grain, they got this big pile of stuff that smells

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pretty good and actually tastes like booze if you taste it. And they...a farmer comes, picks that up. Do you have to pay sales tax on it? [LB405]

DOUG EWALD: What's it used for? [LB405]

SENATOR SCHUMACHER: Feed his cows. Not to eat as booze. [LB405]

DOUG EWALD: No, it's not. [LB405]

SENATOR SCHUMACHER: Under this scheme that will not be taxed. [LB405]

DOUG EWALD: Correct. [LB405]

SENATOR SCHUMACHER: And what's the exemption that applies there then? [LB405]

DOUG EWALD: Food used for animal consumption, I believe, or animal...yeah. [LB405]

SENATOR SCHUMACHER: Okay. Okay, First Data Corporation sends out credit cards for a whole bunch of big outfits. When they put that credit card in the mail to send out to somebody that is paying them to send out credit cards, or to send out to the customer somebody is paying them to send out the credit cards, sales tax? [LB405]

DOUG EWALD: Under this bill or today? [LB405]

SENATOR SCHUMACHER: I didn't understand? [LB405]

DOUG EWALD: Under this bill or today? [LB405]

SENATOR SCHUMACHER: Under the bill. [LB405]

DOUG EWALD: I don't believe so. [LB405]

SENATOR SCHUMACHER: There wouldn't be (inaudible), so if First Data believes there would be sales tax on those credit cards that the plastic that they have to buy to make those cards and put them in the mail, they would be in error? [LB405]

DOUG EWALD: I thought you said they would...with the card they sent out would be subject to sales tax. [LB405]

SENATOR SCHUMACHER: I might not have been terribly clear. On the plastic thing that they make into a credit card and send out. [LB405]

DOUG EWALD: If it's an ingredient component, yes. [LB405]

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SENATOR SCHUMACHER: They're...they're...I mean, there's no big smokestacks are there. They've got a choice of doing that and paying on that in Nebraska or paying on... [LB405]

DOUG EWALD: I guess the question becomes whether or not you consider them to be manufacturing. [LB405]

SENATOR SCHUMACHER: Okay, well, is it? I mean when they manufacture credit cards? [LB405]

DOUG EWALD: I don't know. I guess I haven't looked at that close enough. [LB405]

SENATOR SCHUMACHER: Okay, but if it's taxable and they've got a business decision between here and Florida, or where they don't have this taxing scheme and it's not taxable, where do they go? [LB405]

DOUG EWALD: I guess this is...they have business decisions like that every day, I know that. And from a policy perspective, like I said, the Governor is not wedded to any one particular thing, I don't think. I don't think I heard from this committee that...help us figure it out. [LB405]

SENATOR SCHUMACHER: Okay, finally, there's kind of been a 90-day drop dead talked about here. The Governor said that he pledged the full resources of the Revenue Department and everybody to help us get smart on all these...what appear to be kind of complex issues that, you know, even you were having a hard time with...putting..."cubbyholing" some of this and that this bill was put in just to begin the discussion. So we got from beginning the discussion to 90 days completed project that both parties...I'm not sure who "both" is, but both parties can live with. And meanwhile one of the tools that could possibly be used is this modeling thing, but things are kind of busy over in the Revenue Department so we may not be able to get to that right away. How does this all work? I mean is this realistic? [LB405]

DOUG EWALD: Absolutely. [LB405]

SENATOR SCHUMACHER: You think that...and how quickly you would be able to deploy people on this modeling? [LB405]

DOUG EWALD: Well, I mean I guess if you...to the extent you feel that you have to have a model. I mean today we do...you have estimates out there. You look at the fiscal note; we have our estimates, the Fiscal Office has their estimates, from that perspective. You know, it's...inputs, outputs, from that standpoint, so. [LB405]

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SENATOR SCHUMACHER: Thank you, Commissioner. [LB405]

DOUG EWALD: Um-hum. [LB405]

SENATOR HADLEY: Senator Pirsch. [LB405]

SENATOR PIRSCH: Thank you for your testimony, Director Ewald. My line of...or just, I guess, sole question would be with respect to whether or not you're aware of any studies or literature that this committee could look at that would be helpful in the...insofar as that the plan here in LB405 is revenue neutral. And your...that the premise is kind of that, through the tax structure, by eliminating the income tax that will...it does generate peculiar growth in a way that it does. And I think that there are...you said nine states that currently have no individual income tax. [LB405]

DOUG EWALD: Seven, nine, something like that. [LB405]

SENATOR PIRSCH: Seven, nine...and I think, as I was listening to the radio in today, somebody mentioned that Alaska was the last one to act...to get rid of the individual income tax in 1980 or thereabouts. And so, I wondered if there...and some of these states that I'm...you know, half of them are a little bit...I guess I'm wondering if they're a different animal insofar as, you know, Florida and Texas have some other things going, some warm weather and whatnot. Tennessee, I think you mentioned, may be a more analogous type of state; South Dakota, somewhat in certain ways. So I wonder if there is some...any literature and studies. And maybe those who testify here after you would be in a better position to comment. [LB405]

DOUG EWALD: Right. Well, I know Joe Henchman from the Tax Foundation is here. [LB405]

SENATOR PIRSCH: Yeah. [LB405]

DOUG EWALD: They're quite into...they know the specifics of the different states from that standpoint. And if there are some resources that we should be looking at to improve our understanding of one form or another, we could definitely find that and deploy it to the committee. [LB405]

SENATOR PIRSCH: Yeah. And I'll save that question then for the gentleman that testifies later from the Tax Foundation. [LB405]

SENATOR HADLEY: Senator Harr. [LB405]

SENATOR HARR: And I apologize, because I do want to get to the citizens of Nebraska who came down here. [LB405]

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SENATOR HADLEY: I think...I really think we need to. We have a lot of citizens here, so if you would, please. [LB405]

SENATOR HARR: And I agree with that. So, this will be short. And my question is, how does this affect the cost of Medicaid? We're spending a lot of time on that. And it seems to me that if you add a new tax on drugs, medicine, medical equipment, hospital purchasing, even electricity used by hospitals that there would be a big increase of doing business as for hospitals, which would add to the healthcare costs, which would (a) either bankrupt people earlier, or add to the cost of the reimbursement. And so the cost to a Medicaid, to me, would appear to go up. Would you agree with that? [LB405]

DOUG EWALD: Yeah. I'm not a Medicaid expert. I don't know all the dynamics and inputs with that and how that...their model works. I don't...for me to weigh in on that is something that I have no expertise on. [LB405]

SENATOR HARR: Okay, but given the assumptions I gave you with the increase, would that seem reasonable? [LB405]

DOUG EWALD: It could be. [LB405]

SENATOR HARR: Okay, That's all I have. Thank you. [LB405]

SENATOR HADLEY: Any other questions? Thank you, Commissioner, we appreciate that. [LB405]

DOUG EWALD: Thank you. [LB405]

SENATOR HADLEY: Do we have anybody else from the initial introduction? Senator McCoy, is there anybody else to testify? That's it. Okay, thank you. Now, as I mentioned, could I have the page, if you'd please, one of you come up and if you would put this clock right by the light and face it so people can see it. Proponents, I planned...my plan is to take the proponents for an hour. We'll take a break at that point in time, then opponents, then neutral. So would the first proponent want to please come up. No, you don't have to do anything. Just look at it now... [LB405]

JOSEPH HENCHMAN: All right. [LB405]

SENATOR HADLEY: ...and sometime in your testimony look down again. [LB405]

JOSEPH HENCHMAN: Okay. [LB405]

SENATOR HADLEY: That's all you have to do. [LB405]

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JOSEPH HENCHMAN: (Exhibit 5) All right. Thank you. Good afternoon. My name is Joseph Henchman, H-e-n-c-h-m-a-n, 529 14th Street, N.W., in Washington D.C., the land of indecisiveness. (Laughter) I'm here as vice president of the Tax Foundation. We're a national nonprofit organization that collects and produces basic tax information and analyzes tax proposals, mostly here at the invitation of the Platte Institute here in Nebraska. All of our research and analysis is based on the principles of good tax policy, the idea that taxes, to the extent possible, should be simple, neutral, transparent, and stable. Well, taxes are taxes, right? I've heard the argument. If government is going to spend the same amount whether or not the tax system is reformed, why bother? What is the purpose of tax reform? Well, the type of tax matters, because different taxes have different economic effects. If a tax has a lot of administrative costs for the government, it has a lot of compliance costs for taxpayers; if it discourages investment and risk taking capital formation, then it is more harmful to prosperity and job creation than other types of taxes. And it is something we actually did at the federal level in 1986. We swapped an income tax system that had very high rates, up to 70 percent, lots of tax-free shelters and loopholes and special interest exemptions, and replaced it with a broader, flatter system. Rather than some people paying zero and some people paying 70, we evened it out so that everyone pays. Now all those special-interest provisions have started seeping back in, so maybe it's time for another housecleaning. But that's another matter. We'll work on that in Washington. The OECD, which is the Organization for Economic Co-operation and Development, they're a research organization set up by governments in the industrialized world; they have actually created a hierarchy of which taxes most impact economic growth. And they've determined that the corporate income tax is the most harmful for economic growth followed by the individual income tax. Consumption taxes, like the sales tax, and then finally property taxes were found to be the least harmful to economic growth. Now this finding, that taxing consumption instead of taxing capital and wages leads to more economic growth, and that's the academic consensus as well. We've produced recently a literature review of 26 academic studies published in prestigious peer-review journals of which 23 found a negative effect of higher taxes on economic growth. And of those studies that distinguish between types of taxes, they find that individual income taxes do more harm than consumption taxes, like sales taxes. For example, Mullen and Williams, which is a 1994 study, looked at state tax changes from 1969 to 1986 and found that higher marginal income tax rates reduce gross state product growth, even after you adjust for the size of the state's tax burden. Prescott, in 2004, looked at Europe and he found their highly progressive income taxes lead workers to work fewer hours and not seek additional career-advancing opportunities. Chernick, in 1997, found that progressive state income taxes negatively affect GDP growth and so on. The left-of-center Tax Policy Center in Washington, D.C., which is a joint project of the Urban Institute and the Brookings Institution, they acknowledged this fact. They write: "In practice, consumption is inherently easier to measure than income, and the dynamic efficiency gains from encouraging savings and investment could be large." Now I'll admit, they're reluctant to

advocate moving fully to consumption taxes out of fairness concerns and regressivity. But it is important to understand, putting that very valid discussion point aside, there is broad academic and public finance consensus that shifting from consumption taxes to income taxes leads to greater economic growth. How that growth balances against fairness concerns is a valid question, but it does not deny the taxes-growth link. Now I don't want to over state this case. You will probably get some people who say that dropping the income tax a few points will lead to Nebraska's population doubling in six months. And you may get some people who claim that Nebraska can raise taxes as high as they want and nobody will change their decisions. Both are false. The real answer lies in the middle. Taxes definitely change behavior. It's why there are a lot of New Yorkers who live in Florida for half of the year minus one day...or plus one day. It's why we see whenever the capital gains tax goes up at the federal level, capital gains sales happen right before that takes effect. That said, individuals and businesses choose where to locate for a whole host of reasons: regulations, education, family connections, infrastructure, the weather, and so on. The difference between taxes and those things is that the Legislature can change a tax system, for better or for worse, almost instantaneously. Education reform, Senator Sullivan, are very important. But they can take up to a generation to manifest themselves and to boost an economic growth. Infrastructure has a long lead time, of course. And unfortunately, there's not much the Legislature can do about Nebraska's weather. But a different tax system can change a lot. Something bold is needed, I would argue. We're coming out of this economic downturn. Knock on wood. Entrepreneurs, investors, ideas people, creative people, ambitious people, thanks to modern transportation and communication, they can live just about anywhere in the world. Why Nebraska, is the question you'll need to answer for these people. It's not the only answer, but having no income tax is a pretty good answer. A few words on progressivity and regressivity. The people at ITEP and the Citizens for Tax Justice have put out their new study on measuring state regressivity. They actually conclude that every state's tax system is regressive, even California and Vermont. And that's a weakness of their methodology. No matter how progressive you make your tax system, it's still not progressive in their view. We have other methodology critiques, but I won't go into that here. But I wanted to note, the reason their study gets a lot of traction is because fairness is important. Now fairness is subjective and fairness is tough to measure, but tax systems do need to be perceived as fair by the taxpayers who are subject to them. To be meaningful though, fairness is a lot more than what ITEP does comparing the effective tax rate of the bottom quintile with the top quintile and so on. Whenever you see a study like that, and I think OpenSky put out one earlier this week...or last week, three things I suggest you keep in mind. One, taxes are just half the equation. The real help that state and local governments give to those who need help, who hit a spot of bad luck, is on the spending side. If you just look at taxes, you're missing, to use the federal government example, you're going to miss TANF, you're going to miss SNAP, you're going to miss Section 8, you're going to miss pre-K, you're going to miss job training, and a whole bunch of other things that I think for a lot of people make a bigger difference to promoting equity and helping people

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than how many different income tax brackets you have. Second, the tax system is a blunt, problematic, and, I would argue, ineffective tool for achieving societal fairness. Take the sales tax exemption for groceries, which everyone loves and nobody wants on the table. One reason everybody likes it is because it makes a necessity of life, food, tax free for those struggling to get by. But it's a blunt tool in that it doesn't just apply to the working mom picking up food at the grocery store for the kids; it also applies to the rich guy buying arugula at the high-end grocery store. Many states have hefty corporate income taxes, but a corporation can be owned by millions of middle-class Americans with 401(k)s or by a bunch of rich people in New York City. The tax system is meant to raise revenue; it's not a good tool for reshaping society. Third, remember that a lot of these stats, including the ones that I'm providing you, are snapshots. A lot of the poor are people in their 20s who are just starting out, and retirees with no income but lots of assets. Half of millionaires, that's the people who report over a million dollars or more of income on their tax return for this case, they're a millionaire for just one year. Only 6 percent of millionaires stayed a millionaire for all nine years between 1999 and 2007 at the federal level. I sometimes tell the story of President Harry Truman. When he left office in 1953, he had nothing because he had spent his whole life in public service, first in the army, then as county administrator, then senator, then Vice President, then President. So he did what Presidents do routinely nowadays, but it was pretty new back then. He sat down to write his memoirs, a one-time project that he could sell and get enough money to keep him and his wife comfortable for the rest of their lives. Unfortunately, when he sold his memoirs to the publisher he did so at a time of 90 percent federal income tax rates, and he kept almost nothing from the book. And in fact, we as a country had to pass a presidential pension law because it's quite likely President Truman would have ended up on relief otherwise. And President Hoover, who was the only other ex-President at the time, he also took the pension, not because he needed it, but because he didn't want President Truman to be embarrassed as the only one who had to. That whole story should remind you of the perils of soak-the-rich tax policies. A lot of the rich...rich people are sometimes just a fleeting one-time gain thing. Now I want to commend the Governor for his overall vision and the goals that he set out for Nebraska's tax system. Now I will admit though that the sales tax broadening he lays out is not what I would have come up with. Taxing business-to-business transactions, although it's a mistake that every state makes, it leads to double taxation. We've recently put out a book in North Carolina, and we've been working with Louisiana officials on their tax reform proposals, and in those proposals they exempt business-to-business transactions and instead expand the sales tax to services. Today in many states the clothing store, the convenience store, every retailer, they have to collect sales tax on every thing they sell, on every transaction. But lawyers, accountants, real estate agents, all of their sales are completely tax free. Ending this unfair disparity between those who sell goods and those who sell services, which really is just a holdover from how sales tax were designed in the 1930s, back when we were a goods-based economy and not a services-based economy. That would lead to a more equitable and stable sales tax system and generate a lot of revenue to reduce sales or

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income tax rates. If that's an avenue that's of interest to the Governor or the Legislature and our help is requested, we're certainly eager to do so. This suggestion and criticism, I must note, does not reduce my enthusiasm for the overarching goal--a simpler, more sensible tax system for Nebraska that will mean more jobs and more economic growth. Now a spurious claim you may hear that you should be aware of is the notion of the three-legged stool, and it's been mentioned here also earlier. Now there are a few decent and sensible reasons to oppose repealing the income tax or reducing it. But I would argue that the three-legged stool is not one of them. Now the argument goes that you need every major tax because that way you have a diversity of revenue options. Much like a stool needs three strong legs, equal strong legs, a state revenue system needs three separate revenue sources. There is no academic evidence supporting this urban legend. In fact, the state with the most stable revenue over the last 10 years was South Dakota, a state that doesn't even have corporate or individual income tax. They're very sales tax heavy there. One of the most volatile states was California, my home state, which has every major tax, I assure you, and even though they have every major tax, it didn't create stability. And that's because what matters is not how many taxes you have but how well structured your taxes are. Do they have broad bases and low rates? Are they connected to economic activity? Having three revenue sources, if they're all badly designed with narrow bases and high rates, that will get you an unstable, volatile tax system. And we also looked at volatility by type of tax. And once again, the corporate income tax and the individual income tax were the most volatile; sales tax is about the middle; property tax is the least volatile. Income taxes, for the most part, magnify the economy. They boom in good times; they bust in bad times. And every public finance expert will agree on this, although they'll disagree on what to do about it. For my part, reducing or repealing your income tax and relying heavily on a more broad-based sales tax will likely reduce your year-over-year volatility. You'll be more stable. So bear that in mind when somebody talks about the supposed three-legged stool. Now I want to close with some guidelines for tax reform. Now these are not to be confused with the principles of good tax policies, which I mentioned at the beginning of the idea that taxes should be simple, neutral, transparent, and stable. Hopefully everybody should agree on that. What I have for you are some tips on enacting tax reform from a good article from 2006 by Professor Benjamin Russo. He said, push for broad bases and lower rates, which minimize volatility and maximize revenue adequacy and economic growth; start with principles that are uncontested; strive for revenue neutrality, because it's going to be hard enough to get people on board with other fixes that you propose; measure the reform package by the whole and not the parts, so make sure people are looking at the whole picture and not just their specific exemption; listen, seek the advice of taxpayers and administrators; acknowledge the downside, transparency means being open about who will win as well as who will lose; and focus on educating yourselves. And that's why I'm out here. Now let me end on a note of agreement. You'll notice I'm wearing a red tie today. It's not because I'm a Republican; I'm not. It's because...it's not because I am a Republican; I'm not. It's because a couple of months ago I had the pleasure of being out here for the

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best football game I've ever been to, the Husker-Penn State game. Now I visit nearly every state and I can't play favorites, but do have to say "Go Big Red." [LB405]

SENATOR HADLEY: Thank you, Mr. Henschman. I'm going to take a Chair's prerogative and ask you the first question. Your one caveat about business-to-business taxation, I think that is a big caveat, isn't it? Because basically if you look at the plan in LB405, it's based on pyramiding of sales taxes. Would you agree with that? [LB405]

JOSEPH HENCHMAN: There is taxation of inputs, yes. [LB405]

SENATOR HADLEY: Well, it's a significant part, isn't it, because of the fact that we're...a big part of that is taxing business inputs and agriculture inputs, and that is a pyramiding of taxes. Would you agree with that? [LB405]

JOSEPH HENCHMAN: Yes, I would. [LB405]

SENATOR HADLEY: And that is not generally not a good tax policy, is it? [LB405]

JOSEPH HENCHMAN: It's not, but it's one that nearly every state does. About a third... [LB405]

SENATOR HADLEY: Now I understand that, but just because every state does it, should Nebraska, when we have a chance to change our tax policy, should we make a bad decision because every other state does it? [LB405]

JOSEPH HENCHMAN: Oh, certainly not, although it's something that Nebraska does, as has been mentioned. When you look at...a lot of industries are paying sales tax on their inputs now here in Nebraska. [LB405]

SENATOR HADLEY: Okay, but are they...their inputs that they're paying on, are they taxing...the contractor that builds my home in Kearney pays sales tax on the materials, right? But he doesn't charge me sales tax on the home, does he? [LB405]

JOSEPH HENCHMAN: No. [LB405]

SENATOR HADLEY: So I would like to look at those businesses that are paying sales taxes now to see whether or not their ultimate product is sales...you know, it would be interesting to know how much pyramiding we have right now in Nebraska. Because I think the pyramiding is a significant part of this whole discussion when we talk about agriculture, businesses, etcetera, being competitive. [LB405]

JOSEPH HENCHMAN: I fully agree, Senator. [LB405]

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SENATOR HADLEY: So I...with that I took my prerogative. Senator Sullivan. [LB405]

SENATOR SULLIVAN: I guess along with those lines, you've mentioned that you take snapshots of individual states, but maybe make a broad brush in terms of your analyses. Have you looked at Nebraska in terms of it being primarily an agricultural state, agriculture being our third largest industry, our third biggest employer, and what we currently have in tax policy? Do you have any specific recommendations? [LB405]

JOSEPH HENCHMAN: Generally,... [LB405]

SENATOR SULLIVAN: And being we're...and we're still property tax heavy too. [LB405]

JOSEPH HENCHMAN: Sure, well, we've got a lot of different ways we try to evaluate states. And all of this, of course, is on our Web site and we bombard your e-mails with them too. There's a...our state business tax climate index which looks at the property tax, the income tax, the corporate income tax, the sales tax, and the unemployment insurance tax, uses about a hundred different variables to evaluate the structure. Nebraska is about middle of the road, as the Governor mentioned, 31st out of 50. No one tax really jumps out. Property tax is a little worse than the others. Another study that was mentioned earlier is our Location Matter Study which looks at a model business and looks at what taxes they bear. Nebraska is actually pretty good on that score due to some of the property...the personal property tax exemptions that exist for some certain businesses. As far as a broader brush, it's a much harder thing to do, making that link between taxes and economic growth. As I've said, we've cited some of the studies out there that, at least some academics have worked on them, and I think the consensus is pretty broad there. There is certainly a lot of anecdotal evidence out there. Migration has been mentioned. Nebraska loses a lot of people and a lot of money year over year, over the last 10 years the net outflow of \$1.3 billion in taxable income to other states. There was an inflow, actually, only from eight states: California, Illinois, Iowa, New Jersey, New York, North Dakota, Ohio, Pennsylvania. And I would argue, I mean each of those states has a worse tax system than Nebraska does at present. [LB405]

SENATOR HADLEY: Senator Harr. [LB405]

SENATOR HARR: Thank you. And thank you, Mr. Henchman, for coming to Nebraska. I want to keep this brief because I do want to get to the Nebraskans who have come. But that being said, it was brought up earlier that in the last hundred years we've only had 100,000 increase in population. Do you think that's directly correlated to our tax policy currently? [LB405]

JOSEPH HENCHMAN: I don't know. [LB405]

SENATOR HARR: Okay. And I appreciate that. And then I look at how Nebraska stacks

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up. And your own Tax Foundation has us ranked first in the nation for lowest business tax costs for new firms. Do you agree with that? [LB405]

JOSEPH HENCHMAN: It's a look at seven model firms. So it's not meant to be a holistic look, but yes. [LB405]

SENATOR HARR: Okay. And we're second lowest in unemployment rate. We're third in economic stressed states. We're third best in business cost, Forbes. We're fifth best in probusiness states, Pollina. We're fifth best in education climates; sixth best in taxes and regulations, U.S. Chamber of Commerce, who I think is pretty well respected, if you'd agree with me; sixth best in economic climate, Forbes, which again the Governor cited last year in the State of the State Address, so I think it's, again, a well-respected publication; eighth best business friendliness, CNBC; eighth healthiest housing markets, CNBC; ninth lowest business tax cost for mature firms; Tax Foundation; ninth best state for growth and innovation, U.S. Chamber of Commerce, again well respected; tenth best state for business, CNBC; tenth best state for climate, business, and facility, 2012 rankings; eleventh highest per capita income adjusted for regional price parity, the Bureau of Economic Analysis; twelfth best quality of life ranking, Forbes. We're killing it. We are doing really well here and I am very proud of what our Governor has been able to accomplish in this state. So my question is, we can always do better. And I'd agree with that. But then we got this outlier. It says we're thirty-first. So how do we account for that difference of Tax Foundation saying we're the thirty-first worse tax and yet we have all these others that say you're doing well? And by the way, we can look at housing foreclosures, we're way below; bankruptcy, we're way below the national average; I mean you just go through. We had the...Omaha Chamber of Commerce had a economic analyst here from VISA. And that guy, man, he was telling us, you guys are doing really well. So, my question is why are we so far outside the norm and what can we do...well, let's start with that. Why are we so far...when all these others have us, I mean, at the worst twelfth, how do we all of a sudden get this one outlier that says we're thirty-first? Especially when you have us ranked ninth and first in other areas? [LB405]

JOSEPH HENCHMAN: Excellent question, Senator. I guess two main points: one, some of those studies are measuring other things other than tax policy. Ours just looks at the tax structure of the state. The thirty-first ranking, actually, is agnostic about the size of the tax burden. It's just looking at how simple, neutral, transparent, and stable is your tax system. I know some of those other studies, they look at things like whether you have a right to work law; what your minimum wage is; we don't touch any of that. [LB405]

SENATOR HARR: Yeah. [LB405]

JOSEPH HENCHMAN: And I think the economic evidence is more mixed on how much those affect growth. [LB405]

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SENATOR HARR: Thank you. And I'd agree with that. As a matter of fact, when I pull up a study of saying and it's...and I think we're all going to have some repetition, because we all use Google, so but looking at...pull up Google, what do businesses look at when they look at to move a business? And as the Governor so rightly stated, taxes are pretty high up there. But there are other issues to look at, and this is in alphabetical order, but it talks about air pollution; aircraft movement; broadband quality/size; classroom size; Consumer Price Index; cost of business occupancy; cost of Internet; cost of public transportation; cost of rent; crime; cultural vibrancy; digital economy score; employee regulations, which we talked about; end-of-care life; entrepreneurial environment, which I think we have a great one; financial and business service employment; health system performance; hospitals; hotels rooms; housing; income; outgoing passenger flow; innovation city index. I mean the list goes on; I'm only to the I's and it goes on and on and on. So while I think taxes are important, I don't think they are the only thing we should probably look at. I appreciate you coming in here to talk about that. I always get a little worried when we use rankings. You give your Harry Truman analysis; I'll give you mine. When I went to...where I went to law school was ranked 12th. My twin brother got in there and it went to 24th. And when I got in the next year it went to 39th. So what happened is, it's more than just us, I think. (Laughter) But... [LB405]

JOSEPH HENCHMAN: Same thing happened to me at my law school. [LB405]

SENATOR HARR: But what it is, what happens is methodology changes. And I think if you start looking at methodology, and people look at that, they're going to start playing to that methodology to bring their rank up. And I think we have to be careful about that. With that being said, I would ask you a couple of questions that would help our ranking. [LB405]

JOSEPH HENCHMAN: Oh, excellent. If I could just say one word on that, Senator. [LB405]

SENATOR HARR: Please. [LB405]

JOSEPH HENCHMAN: It was...that's a very strong point, a very important point. For our reports and our rankings, we're always very clear about what our methodology is and how we view it. You can find it on our Web site... [LB405]

SENATOR HARR: Yep. [LB405]

JOSEPH HENCHMAN: ...and in any of our studies. And, I mean, our focus is on good tax policy, not necessarily sort of more ideological concerns of a lot of other people. [LB405]

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SENATOR HARR: I would agree. You guys are very open and transparent. It's very clear how you do this. I commend you on that also. How you are funded, you're very open on that and I would commend you on that. [LB405]

JOSEPH HENCHMAN: And, you know, I never urge people to focus on the ranking and not understand the analysis behind it. [LB405]

SENATOR HARR: Okay. [LB405]

JOSEPH HENCHMAN: And in all of our reports, I mean there's a reason our reports are not one page, they're books,... [LB405]

SENATOR HARR: Yeah. [LB405]

JOSEPH HENCHMAN: ...is because we try to exhaustively talk about what these numbers mean and where they come from. [LB405]

SENATOR HARR: And I appreciate that. Let me ask you this. Would just a rate reduction or elimination of the AMT help Nebraska rank better though, looking at your methodology? [LB405]

JOSEPH HENCHMAN: Yes. [LB405]

SENATOR HARR: Okay. And what about changing our carry-forward policy? [LB405]

JOSEPH HENCHMAN: Yes. [LB405]

SENATOR HARR: Okay. And could you explain that, what that is. [LB405]

JOSEPH HENCHMAN: The carry-forward policy? [LB405]

SENATOR HARR: Yes, just for the audience. [LB405]

JOSEPH HENCHMAN: Okay. The tax system, this is in the context of the corporate tax income tax, but it can apply to anything else, is based on a calendar year. You fill out your income tax return. It's the income you earn from January 1 to December 31. There is no real policy rationale behind that. It's mainly out of administrative and compliance convenience. So, we're not paying income tax every day, instead we have this arbitrary time frame from which we're paying tax at the individual and corporate level. Obviously, there are some times when you may earn more or earn less over a given time frame. For corporations the carry loss...carry-back or carry-forward policy...net operating loss carry backs or carry forwards are meant to smooth that out and eliminate the distortion

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you would have from having a bad year. You would be able to, basically, average that out, even it out over other years. [LB405]

SENATOR HARR: And ours is five in Nebraska, I believe. [LB405]

JOSEPH HENCHMAN: I believe, yeah. [LB405]

SENATOR HARR: Okay. And you would recommend following the federal, or would you say and...what would you recommend? [LB405]

JOSEPH HENCHMAN: Well... [LB405]

SENATOR HARR: The federal is 20? Is that right? [LB405]

JOSEPH HENCHMAN: It's up to 20, yeah, for carry forwards. [LB405]

SENATOR HARR: Okay. [LB405]

JOSEPH HENCHMAN: Generally, yes, anything that would reduce that distortion caused by just our arbitrary selection of the calendar year. [LB405]

SENATOR HARR: Okay. I appreciate that. I also went to your Web site and I saw no model code as far as what is a proper form of taxation. [LB405]

JOSEPH HENCHMAN: Correct. [LB405]

SENATOR HARR: And I think I talked to you about this before, and I liked the answer, and that is when making a tax, we have to look at what economies we're trying to encourage within that state. So the economy of Florida is different than the economy of Texas, than New York, and California. And so when we are making our tax bill, we need to look at what economies we are trying to encourage because taxing affects behavior. And so that's why you don't have a model code, because we really should be looking at what economies we're trying to encourage and then make our taxes around that. Is that a fair statement? [LB405]

JOSEPH HENCHMAN: I couldn't have said it better, Senator. [LB405]

SENATOR HARR: Okay, thank you very much. [LB405]

JOSEPH HENCHMAN: In fact, I might have said that. (Laughter) [LB405]

SENATOR HARR: Yeah, I think...yeah, I started out with it's an exercise in futility and then I think I...the rest was what you said. [LB405]

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JOSEPH HENCHMAN: Yeah. I mean, this is why we...for the North Carolina project... [LB405]

SENATOR HARR: Yeah, yep. [LB405]

JOSEPH HENCHMAN: ...which we put together a book on North Carolina, we didn't just sit in our office and come up with recommendations. We went down and spent quite a lot of time meeting with people in North Carolina, meeting with all the different stakeholders and putting...crafting recommendations that are specific to North Carolina. Now it's not to say that there is not wisdom in there that might be useful for other states, but just because Sam Brownback is doing something doesn't mean you have to do it certainly. [LB405]

SENATOR HARR: Okay. Thank you. Thank you for coming here. I appreciate your time. [LB405]

JOSEPH HENCHMAN: Yes. [LB405]

SENATOR HADLEY: Senator Schumacher. [LB405]

SENATOR SCHUMACHER: Thank you, Senator Hadley. Just one question, is...your operation, apparently, has a good statistical abilities, it has the ability to research a lot of different things, try to draw, I assume, conclusions from the statistics that you see, make projections. So if fiery tongues were to appear in the ceiling of this building and fill us with knowledge of the perfect tax system, how many thousand more people per year could we expect to move to the state? [LB405]

JOSEPH HENCHMAN: I don't know. [LB405]

SENATOR SCHUMACHER: And no way to tell, no way...no normal distributions. [LB405]

JOSEPH HENCHMAN: Well, I mean this kind of plays into the static analysis discussion that happened earlier. Federal government and Nebraska all use static analysis to measure revenue, not because anybody thinks static analysis is correct. Nobody thinks static analysis is correct. Everybody agrees that's wrong. It's because people disagree on what the right dynamic analysis would be. [LB405]

SENATOR SCHUMACHER: So we really can't take any of this to the bank. [LB405]

JOSEPH HENCHMAN: Well, I think you can take some of it to the bank. So I...like Senator Harr, one of your questions earlier was what is the revenue feedback effect that

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we might guess. And, you know, this would not be the first tax cut in history so there is some evidence out there. And it's hard because you have to separate out the effects from the tax cut from other economic effects that may happen. Just in looking that up, the Kennedy-Johnson tax cut recovered about a third of the revenue that it lost. The Reagan tax cut of '81, which is harder because you have a lot of economic noise happening that decade, but, again, about a third. The 1986 tax reform, which was revenue neutral, recovered about 40 percent of the revenue foregone, not counting the increased revenue. So, I mean these are all federal and I don't want to, certainly, take it to the bank, but it certainly...you'll have some revenue feedback effects from the switchover. [LB405]

SENATOR SCHUMACHER: But impossible to guesstimate whether it has an impact on population movement or not. [LB405]

JOSEPH HENCHMAN: Well, I'm sure...I'm sure the Tax Commissioner will be forced to, but...(laughter). [LB405]

SENATOR SCHUMACHER: (Inaudible). [LB405]

SENATOR HADLEY: Any other questions for Mr. Henschman? Thank you, Mr. Henschman. [LB405]

JOSEPH HENCHMAN: Thank you all. [LB405]

SENATOR HADLEY: Could I see any...just a show of hands of other proponents? There are two. Okay, we have half an hour left; 6:15 the hour is up for proponents. [LB405]

JIM CADA: (Exhibit 6) Good afternoon, good evening, whatever it might be. Thank you very much for allowing me to speak on behalf of the veterans in the state of Nebraska. My name is Jim Cada, that's C-a-d-a. I was a...I'm a Vietnam veteran; spent a year there, was drafted into the Army. I'm the past state commander of the Military Order of the Purple Heart. I'm the chairman of the Veterans' Home Board that oversees the state veterans' homes and approves every admission. The Nebraska Veterans Council, which is comprised of the seven major veterans' organizations on which I have served for many, many years, has unanimously voted to support the elimination of the state income tax. Elimination not only benefits those military personnel who choose to make the preservation of our liberty their career, but will also benefit those veterans on Social Security. Our elders do not want to leave their home state. Many would prefer to stay in the state where they come home to after their service. You tell our soldiers welcome home. Now you have to tell them that they are welcome to stay here. Those who have served and risked for all liberty and freedom deserve our thanks and our appreciation. Have they done so much for us only to watch in heartbreak as their children move away in order to find the jobs and careers that Nebraska could now...could not provide due to

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its lack of competitiveness? We fought for more than mediocrity and I challenge you to move this state forward. I'm not unfamiliar with government. I understand the pressures that you must be under by those who over the years have carved out a special place for themselves and for their business. I ask you today to be strong. Years from now will people remember this day when Nebraska took a bold step forward or will it be remembered as another missed opportunity in a time renowned for its gridlock and lethargy? This is not Washington, D.C. This is Nebraska, and I know you can do it. When many think of veterans, one thinks of history. Nothing could be further from our reality. We did not figure for the past; we fought for the future, our future, our children's future, the future of generations yet to come. Today we cannot sit idle. Today we are called once again to serve, not in a desert or in a jungle but in this very room today, to bear witness to our values but to stand up and be counted, to once again pledge ourselves to a better future for us, for our children, for Nebraska's future generations. We have answered our country's call. Now will you answer our call? We're calling you to be bold, repeal the income tax, support fairness for our veterans, support growth and support a future worthy of the sacrifice of our veterans. Those are my words. Thank you very much for your time. [LB405]

SENATOR HADLEY: Any questions for Mr. Cada? Senator Schumacher. [LB405]

SENATOR SCHUMACHER: Thank you, Senator Hadley. Just one question: What percentage of the veterans aged 65 or older, married, on Social Security, have a retirement income greater than \$32,000 a year? [LB405]

JIM CADA: It depends on the disability to some degree for some of them. And it depends upon whether they continue to work. I'm a veteran; I will continue to work and I will be making more than that \$30,000. But my point to you is that I don't have any way of knowing what our veterans make because we're not allowed to categorize them in that fashion. I know that we have many veterans who would like to remain in Nebraska, who move to Tennessee or Texas, and I would like to see them stay. I belong to six of the seven organizations. I believe that we are losing our membership quickly and we're not replacing it because veterans who come back leave, veterans who have retired leave. And that's the problem. [LB405]

SENATOR SCHUMACHER: So the short answer, we have no way of knowing the percentage of veterans who, in retirement, have a retirement income of greater than \$32,000. [LB405]

JIM CADA: I just know of veterans who leave. I don't know of many that stay. [LB405]

SENATOR SCHUMACHER: I don't have any other questions. [LB405]

SENATOR HADLEY: Senator Janssen. [LB405]

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SENATOR JANSSEN: Thank you, Chairman Hadley. Thank you for showing up today, Mr. Cada. And welcome home. [LB405]

JIM CADA: Thank you very much. [LB405]

SENATOR JANSSEN: As a veteran of "the Desert,"... [LB405]

JIM CADA: Right. [LB405]

SENATOR JANSSEN: ...welcome home. [LB405]

JIM CADA: Appreciate that. [LB405]

SENATOR JANSSEN: I, like you, belong to many different organizations, with the veterans, whether it be the VFW, DAV, American Legion. And when you talked to the group--and I appreciate your testimony, saying you understand that the pressures that we're feeling from various groups--was there a discussion among the veterans' groups from, maybe, people that were benefiting from those carved-out exemptions right now, maybe from the ag community or the other industries that are affected by this? Was there any discussion along those lines? [LB405]

JIM CADA: Well, we talked about this for quite some time, Senator Janssen, and we discussed the pros and cons. But we believe that our veterans just deserve better, just like your bill and four others that have been submitted to this committee. But the point is that I believe that they have all looked at the various pros and cons. They don't know that they're going to save any money. They don't know that they're...they know they're going to have to pay some other taxes. But the whole idea is what's fair. And for those who have little income or not much income, it is fair. [LB405]

SENATOR JANSSEN: Thank you. [LB405]

JIM CADA: Uh-huh. [LB405]

SENATOR HADLEY: Senator Harr. [LB405]

SENATOR HARR: Thank you, Senator Hadley. You seem to be making two arguments here. One, we should not tax income, on these...on the benefits, right? [LB405]

JIM CADA: That's correct. [LB405]

SENATOR HARR: And then the other is we need to be more competitive so we keep our children here. [LB405]

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JIM CADA: Correct. [LB405]

SENATOR HARR: Okay. Do you find those two to be in conflict with each other? [LB405]

JIM CADA: No, I don't. I mean, as a family man, I want to have my kids here; as a family man, I want to have the veterans here. I see them being very important in our life and the way we sustain our life. [LB405]

SENATOR HARR: But the child sticks around...I mean, first of all, I think people leave for a number of reasons. When you're young...I'm not sure how many leave for tax. I think it's the excitement of bigger cities, which sometimes have higher taxes. [LB405]

JIM CADA: Sure. [LB405]

SENATOR HARR: It's for jobs. Some of those jobs are population based, not...meaning we don't have the population base here to have certain jobs. We can never have Wall Street here; some of those jobs just won't exist. And some, it is you want to be around more youth. So I think that's why some people leave. I think some people leave maybe because of taxes. But I'm not...or, you know, like I said, a job...NASA can't be in Omaha, it can only be in one place, if you want to do that. So I'm not sure if that lack of competitiveness is what drives our youth away. It may affect you on the back end, but I'm not sure if that correlation really exists with the youth. [LB405]

JIM CADA: See, I think and I believe that if we get better businesses, bigger businesses, into Nebraska, we provide better resources for our young people, places for them to work. That's what I hope comes because of what's going on here. [LB405]

SENATOR HARR: Well, but we only have a pie that's so large. And so we have to decide, are we going to give the taxes to the individual, meaning to your benefit; or are we going to give them to the business? Because we can't...you know, the Governor loves to say: We can do that, we can do anything we want; but we're going to have less money for education. So then the question becomes, do we want to give that money to the...so then how do we...because there are competing interests. [LB405]

JIM CADA: But you're... [LB405]

SENATOR HARR: How do you determine? [LB405]

JIM CADA: ...you're assuming that because a business is going to pay a different kind of tax, that it's going to be detrimental to them. I can't make that assumption. [LB405]

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SENATOR HARR: Okay. [LB405]

JIM CADA: I can make the assumption that if we encourage the business, we'll have better jobs for our young people. That's what I...that's my belief. We need to get...that's what's wrong with the federal government: not enough people are paying taxes. We need more people to come in and do the kind of things we need to do. We need businesses that will pay a higher wage so that people can spend more money, can buy more things, and be the kind of American economy we expect. [LB405]

SENATOR HARR: Fair enough. [LB405]

SENATOR HADLEY: Thank you, Senator Harr. Thank you, Mr. Cada. [LB405]

JIM CADA: Thank you very much. [LB405]

SENATOR HADLEY: The next proponent. Just so you know...I think this is the last proponent. Is that correct? Or we have another one? If we're not done by 6:15, you'll have to wait until after we're done. After this proponent is done, I, if it's 6:15 or later, I plan to take a 15-minute break at that point in time so we can get up, stretch our legs, and such as that. I'll tell you exactly when we're due back. If you would introduce yourself and start the process. [LB405]

BRAD STEVENS: (Exhibits 7 and 8) Thank you, Chairman Hadley. Thank you, members of the Revenue Committee. My name is Brad Stevens, B-r-a-d S-t-e-v-e-n-s. I'm the Nebraska director of Americans for Prosperity, a free-market advocacy group with over 40,000 members statewide. I am passing out two documents: one is my written testimony; the other is research we put together on this issue for your consideration. We support Senator McCoy's LB405 for the simple reason that it'll increase take-home pay for every hardworking Nebraskan. Eliminating the income tax burden on individuals and corporations will make Nebraska a better state to start a business, start a family, or start over. By "start over," I am referencing the 5.4 businesses leaving California per week or the 40,000 people who leave Illinois every year. High-tax states are losing population, business, and economic investment. And Nebraska could be a magnet for those new jobs if we reform our tax burden. Nebraska can attract new jobs by eliminating our income tax. Other states which have either eliminated or greatly reduced their income tax burden have experienced significant economic growth. Comparative studies demonstrate that eliminating the income tax burden on corporations and individuals has a significant impact on economic growth and job creation. More importantly, eliminating the income tax provides greater take-home pay for hardworking Nebraskans. The typical Nebraska family stands to see their paycheck increase by over \$1,000 if we pass LB405. That is \$1,051 families can save for college, pay off credit card bills, pay the mortgage, or add to the rainy day fund. Nebraska families work hard, and we pay a lot of taxes. In fact, Nebraska--I know

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you've heard this plenty of times today--but Nebraska has the 21st-highest tax rate in the nation, according to the nonpartisan Tax Foundation; and we pay the greatest tax burden of any of our neighboring states. The fact is this: states with no income tax routinely outperform high-tax states in population growth, economic growth, job creation, and investment. Nebraska can do better. We can be more competitive. But we must have the right tax climate, which promotes entrepreneurship and does not punish success. We do want to briefly offer recommendations for improving LB405. We do not want this bill to simply be a tax shift from one part of our state to another or one that predominantly impacts one industry. But we do believe if Nebraska is to have a sales tax, we ought to have a broad tax. A broad tax base creates a more equitable environment, where one business or industry is not receiving preferential treatment. In short, a broad tax base embodies our state motto: Equality before the Law. Yet, there are exemptions retained by LB405 that we do not believe are necessary to the function of government or to maintaining a social safety net. If we were to eliminate exemptions for the sale of lottery tickets, conference bridge services, newspapers, "telefloral" services, certain fine art purchases, and soda pop, the revenue would be just shy of \$30 million. Thirty million dollars is adequate revenue to keep intact exemptions for either nondurable or durable medical equipment or a combination of exemptions on business inputs or to lighten the burden on the ag sector. To be sure, difficult choices must be made. But we offer these specific recommendations as evidence that the conversation on tax reform is just now beginning. It's a conversation we desperately need, and it's one we hope this committee will allow to be heard by the full Legislature. Thank you for your time. Happy to answer any questions you may have. [LB405]

SENATOR HADLEY: Mr. Stevens, I will ask you the same question I asked Mr. Henchman. Americans for Prosperity, do they have a stand on the policy of pyramiding of sales taxes? [LB405]

BRAD STEVENS: I...and I agree with the testimony you heard from Mr. Henchman. I don't believe...although that is the, if not all, the predominant...predominantly the route that states go, I don't believe it's the best route. So I agree with the testimony that Mr. Henchman provided you. [LB405]

SENATOR HADLEY: You're saying that it is not a good policy, is that what you're saying? [LB405]

BRAD STEVENS: I believe that...as part of the recommendations we just offered you, I'd include the same recommendations that Mr. Henchman offered. Looking at services, expanding the sales tax to services, makes sense. [LB405]

SENATOR HADLEY: And, basically, I don't mean to press you, but... [LB405]

BRAD STEVENS: No, that's fine. [LB405]

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SENATOR HADLEY: ...what you're basically saying is that you would do away with any sales tax that is a pyramiding of sales tax; I mean, you would not do that in this tax policy. [LB405]

BRAD STEVENS: I mean, I guess the short answer is yes. [LB405]

SENATOR HADLEY: Okay. That's all I need to know. [LB405]

BRAD STEVENS: We'll just leave it at that. [LB405]

SENATOR HADLEY: Okay. Thank you. [LB405]

BRAD STEVENS: Make it easy. [LB405]

SENATOR HADLEY: Any other questions for...Senator Schumacher. [LB405]

SENATOR SCHUMACHER: Thank you, Senator Hadley. Do you have any way of knowing or being able to reasonably project how many thousand more people per year, net, can be expected to move to Nebraska if we do this tax policy? [LB405]

BRAD STEVENS: I have a yes and no for that. No, I do not have any figures that will say we pass this bill and this is the percentage increase or number of new folks who will migrate to Nebraska. But we do have...and this is in the document of research that I provided for you. It's...it's...basically shows that states that have nonexistent to low income tax burdens, their population does grow faster than states, like Nebraska, with a high tax burden. So when I do a comparative sampling--and I didn't do this; this is other folks' research that we compiled together as a part of our research on the issue--but when you look at a comparative sampling of contrasting states with low to nonexistent income tax burdens to high income tax burdens or high tax burdens, those states are where Nebraska...we want to be. And a low-tax state have a higher population growth. [LB405]

SENATOR SCHUMACHER: But there's other factors involved in those states. [LB405]

BRAD STEVENS: Of course. [LB405]

SENATOR SCHUMACHER: Okay? [LB405]

BRAD STEVENS: Of course. [LB405]

SENATOR SCHUMACHER: So we just don't know, is the answer. Now, the other thing is it's become evident from the testimony today that folks with six- and seven-figure

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incomes are going to pay a lot less, unless they're directly affected with one of the impacted industries. If somebody pays a lot less, somebody has got to make up the difference. Do you have any idea who that somebody is? [LB405]

BRAD STEVENS: I mean, you see that in the expansion of the sales tax. All those individuals who are operating businesses or are in those industries now that will lose their exemptions in LB405, they're going to be paying more. But something that...I think it bears repeating--I know it's obvious but I haven't heard today--is, follow all those businesses, though, that are paying 7 percent. Let's say they have the highest local sales tax rate; they're paying 7 percent. They're not paying income on whatever that...that machinery. I'm going to use the example of my family business. My dad owns a small mom-and-pop pizza place...or did. You know, you have to pay taxes on the oven and the mixer and all the other supplies that go into that, but now he doesn't have to pay income tax on all the revenue that he generates. What my hope would be--I know it's not going to be dollar for dollar, I'm not an economist and I cannot tell you exactly what those figures would be--but my hope would be that businesses that no longer have to pay that income tax would then be able to lower the price of the goods and commodities and services that they're offering, so that they can be competitive with neighboring states, because we have talked about folks going to other states if they're near the border or want to go to other states to buy purchases because the sales tax would create such a burden. My hope would be that Nebraska businesses, Nebraska entrepreneurs, could offer their goods and services at a lesser rate because they're not paying income tax anymore. [LB405]

SENATOR SCHUMACHER: If the testimony we hear today says that the agriculture and manufacturing sectors will pay a lot more in sales tax than they save in income tax and have to pass that difference on to somebody else, either that or leave the state, would that cause you to change your position? [LB405]

BRAD STEVENS: In the research that we have done, is economies grow...when you have nonexistent to low income tax rates, your economy grows faster than those with high income tax rate or high tax burdens. So if your economy is growing, you're creating new jobs, you're increasing the average salary in your state. That's a good thing. That's the direction that we want to go. I would also say this, based on the median family taxable income and what they would save, for the median family, is over \$1,000 annually. That's a lot of money. That's a lot of money that we'd like to put back into families' pocketbooks. [LB405]

SENATOR SCHUMACHER: Where does the missing money come from? [LB405]

BRAD STEVENS: And again it goes back to... [LB405]

SENATOR SCHUMACHER: I mean, unfortunately, we're not Washington and we don't

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have a printing press, so... [LB405]

BRAD STEVENS: Correct. [LB405]

SENATOR SCHUMACHER: If the folks paying...with six- and seven-figure salaries are paying, clearly, a lot less, where does the missing money come from? [LB405]

BRAD STEVENS: And it goes...it...the short answer is the new sales tax collections. [LB405]

SENATOR SCHUMACHER: And who pays that? [LB405]

BRAD STEVENS: Whichever exemption that this committee and this Legislature, should you decide to do so, move forward with. [LB405]

SENATOR SCHUMACHER: Thank you. [LB405]

BRAD STEVENS: Thank you, sir. [LB405]

SENATOR HADLEY: Any other questions? Thank you, Mr. Stevens. [LB405]

BRAD STEVENS: Thank you. [LB405]

SENATOR HADLEY: Next proponent. [LB405]

JEREMY JENSEN: Hi, my name is Jeremy Jensen. I'm a taxpayer here in Lincoln, Nebraska; I've been a real estate agent. [LB405]

SENATOR HADLEY: Would you spell your last name, sir. [LB405]

JEREMY JENSEN: Sure. J-e-n-s-e-n. I make about \$40,000 a year; and, to me, eliminating the income tax is \$140 a month. It's a lot of money for me. I'm not here to represent any organizations or any special interests. But you're going to hear from a lot of those guys today. I think, Senator Schumacher, you've had a lot of good questions about where does this tax money come from, or where does it get made up by. I'm a strong believer that we haven't had a fairness in our taxation in Nebraska. I believe that exemptions are an unlevel playing field for all industries. And I really believe strongly...I know Governor Heineman mentioned earlier he wanted to hear from Nebraskans on what this means and what we think. And Senator McCoy mentioned it too. I really feel strongly that this body should really consider the possibility, just consider it, of no exemptions. Crazy, right? I haven't heard very many people mention it, but it's something I've thought a lot about lately, is, how do you exempt one industry or one product or one business and have it be fair for everybody else? I want to live in a state

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that has fairness all around in business and industry, regardless of what you sell or what service you provide. That's all. [LB405]

SENATOR HADLEY: Mister... [LB405]

JEREMY JENSEN: Oh, I'm sorry, I had one short thing. [LB405]

SENATOR HADLEY: Yes. [LB405]

JEREMY JENSEN: Sometimes it's the little things in life that mean a lot to us. It would mean a whole lot to me to never have to write a state of Nebraska income tax report ever again. (Laughter) [LB405]

SENATOR HADLEY: That's good, Mister... [LB405]

JEREMY JENSEN: When I get done with my federal taxes each year, I can't tell you how much of a headache it is when I realize, oh, I need to do the state of Nebraska form too. It's an extra expense that I have that everybody has. [LB405]

SENATOR HADLEY: Just a quick question, Mr. Jensen. You said you were in real estate? [LB405]

JEREMY JENSEN: Previously, yes. [LB405]

SENATOR HADLEY: Would you be willing, then, to put a sales tax...expand the sales tax to include a sales tax on the commission that people pay on selling their house? [LB405]

JEREMY JENSEN: The commission on a...it depends if other services are going to be taxed or not. [LB405]

SENATOR HADLEY: Well, yeah, I mean, this would be a part... [LB405]

JEREMY JENSEN: There would be...yeah, there should be no exemptions. [LB405]

SENATOR HADLEY: No exemptions. [LB405]

JEREMY JENSEN: There should be no exemptions. If you're going to have... [LB405]

SENATOR HADLEY: You go to the doctor, and... [LB405]

JEREMY JENSEN: That's correct. [LB405]

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SENATOR HADLEY: ...you have to buy a \$5,000 prescription for a cancer drug, a person should have to pay \$210 and... [LB405]

JEREMY JENSEN: That's correct, because once you start picking winners and losers--I know Senator Harr mentioned this earlier--once you start picking who gets exemptions and who doesn't, it opens this body up to an extreme amount of lobbying that you're going to be hearing from today. I really believe that in order for not to have a winners-and-losers situation, you can't have any exemptions. [LB405]

SENATOR HADLEY: Just one quick question: Could we do the same thing with income tax, then, do away with all exemptions and just...if your gross income is \$25,000 a year, you pay 6 percent on that? Everybody pays 6 percent on that? [LB405]

JEREMY JENSEN: Wouldn't that be income tax? [LB405]

SENATOR HADLEY: Yeah. I'm just saying, if you're saying the same thing for sales tax, if you're saying no exemptions for sales tax... [LB405]

JEREMY JENSEN: Right. And I'm saying I'm a... [LB405]

SENATOR HADLEY: ...could we use the same concept for income tax, that we do away with all exemptions, all deductions? [LB405]

JEREMY JENSEN: Well, I hope we get away with the income tax. I hope we don't have an income tax anymore. And that's what I'm here to testify in favor of, is that, under this situation, I believe that adding no exemptions, no exceptions is something that should at least be discussed and looked at. [LB405]

SENATOR HADLEY: Senator Harr. [LB405]

SENATOR HARR: Thank you. Would that include the transfer of property? [LB405]

JEREMY JENSEN: It could. If it includes the transfer of property...you need to look at all services and all things that are...you know, I know... [LB405]

SENATOR HARR: Well, I'm talking about real estate. [LB405]

JEREMY JENSEN: Um-hum. [LB405]

SENATOR HARR: You'd be okay with that? [LB405]

JEREMY JENSEN: When you say "transfer," are you talking about title transfers, or are you talking about sales tax on a property? [LB405]

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SENATOR HARR: You tell me...I mean, if it's all transfers, it would be...you're in residential or commercial real estate? [LB405]

JEREMY JENSEN: Residential. [LB405]

SENATOR HARR: Okay, so you sell a house. [LB405]

JEREMY JENSEN: Um-hum. [LB405]

SENATOR HARR: There would be a 5 percent or, let's say, 5.5 percent tax on that transfer and then a 5.5 percent tax on your commission. [LB405]

JEREMY JENSEN: And this is something this body has brought up a lot today. I'm really glad you're asking that question. Chairman Hadley mentioned several times about...what were you calling it? I call it an embedded tax. [LB405]

SENATOR HADLEY: Same thing. Pyramiding. [LB405]

SENATOR HARR: Yeah. [LB405]

SENATOR HADLEY: Tax on a tax on a tax. [LB405]

JEREMY JENSEN: If you own a pencil company and you're paying the guy that gives you the erasers, are you paying a tax on that eraser or not? And I think the answer is either every business is or every business isn't. I don't think there should be any "in between" on this. I think everybody pays it or nobody pays it. I think it's... [LB405]

SENATOR HARR: Okay. So you wouldn't have a problem with it on real estate, then, property. [LB405]

JEREMY JENSEN: I don't, because I see, if you have an embedded tax that you're paying sales tax on, for all businesses, then that tax base becomes broader, and it costs less. Or you don't have any embedded tax, and that sales tax at the end costs more. I think this body is smart enough to figure out what the ratios and what the mathematics would be behind that. [LB405]

SENATOR HARR: And so call me "Ned Niedermeyer" (sic), but... [LB405]

JEREMY JENSEN: What's that? [LB405]

SENATOR HARR: I said, call me "Ned Niedermeyer," but what about life insurance proceeds? [LB405]

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JEREMY JENSEN: What about life insurance proceeds? [LB405]

SENATOR HARR: Should that be taxed as well, then, at 5.5 percent? [LB405]

JEREMY JENSEN: I...should it be taxed at 5.5 percent? Who said 5.5 percent? I don't believe I ever said that. [LB405]

SENATOR HARR: Well, the sales tax. Should there be a sales tax, because there's a transfer of money from the insurance company to the individual? [LB405]

JEREMY JENSEN: There should be a standard in place. If you're going to tax one type of thing, it should be...they should all be taxed or not. And, see, you're trying to run into this whole situation... [LB405]

SENATOR HARR: No, no. [LB405]

JEREMY JENSEN: ...I'm talking about with exemptions, Senator Harr. [LB405]

SENATOR HARR: Yeah. I'm just trying to figure out where the line is. [LB405]

JEREMY JENSEN: They're either all taxed... [LB405]

SENATOR HARR: Yeah. [LB405]

JEREMY JENSEN: ...or they're not. [LB405]

SENATOR HARR: Yeah. [LB405]

JEREMY JENSEN: But this whole idea, oh, well, what about life insurance? What about medication? [LB405]

SENATOR HARR: Yeah. That's why I don't know where the line is. Yeah. [LB405]

JEREMY JENSEN: That's why we're in this situation now. It's because we've picked winners and losers in this state for years... [LB405]

SENATOR HARR: Yeah. [LB405]

JEREMY JENSEN: ...through our tax situation. [LB405]

SENATOR HARR: And I don't disagree with that. I'm just trying to figure out where the line is, as far as what transactions count and what transactions don't, because there are

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transactions that occur every day. [LB405]

JEREMY JENSEN: Sure. [LB405]

SENATOR HARR: Bartering, obviously... [LB405]

JEREMY JENSEN: And that's up to this body to decide. I'm not here... [LB405]

SENATOR HARR: Yeah. [LB405]

JEREMY JENSEN: ...to give you details. I'm here to give you my opinion... [LB405]

SENATOR HARR: Yeah, and I appreciate that. [LB405]

JEREMY JENSEN: ...on the broader scope of this, so... [LB405]

SENATOR HARR: No, no, no, and I appreciate it. I'm not trying to be... [LB405]

JEREMY JENSEN: Um-hum. [LB405]

SENATOR HARR: ...accusatorial; I'm just trying to figure out...because I don't know. And we're trying to have a conversation here today. [LB405]

JEREMY JENSEN: Sure. [LB405]

SENATOR HARR: We're trying to dialogue. And I don't know. And this is a new concept to me. And so, again, I'm trying to figure out where that line is. And I honestly do not know. And I... [LB405]

JEREMY JENSEN: Right. And it's... [LB405]

SENATOR HARR: ...I'm excited about this conversation we've had today. [LB405]

JEREMY JENSEN: Okay, good. And, you know, a lot of folks, if I could interrupt... [LB405]

SENATOR HARR: Yeah. [LB405]

JEREMY JENSEN: ...a lot of folks have said...have made the case for: only new products should be taxed, with a end-consumer sales tax. And I think that makes a lot of sense. And if you're going to do that, there should be no embedded taxes. [LB405]

SENATOR HARR: Okay. [LB405]

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JEREMY JENSEN: But if some businesses are going to be exempt from anything, all businesses should. Again, it's...this is either 100 percent in or 100 percent out. There just...you just don't go through and make these exemptions, because you pick winners and losers... [LB405]

SENATOR HARR: Yeah. [LB405]

JEREMY JENSEN: ...in the business place. That's not good for our state. It's confusing... [LB405]

SENATOR HARR: Yeah. [LB405]

JEREMY JENSEN: ...to the public. I know I'm constantly confused about which things are exempt and which aren't. [LB405]

SENATOR HARR: Okay. [LB405]

JEREMY JENSEN: I'm just a guy out there trying to buy stuff, you know? [LB405]

SENATOR HARR: Well, yeah, I mean, you buy a hamburger in a Kwik Shop: when it's frozen, you don't pay sales tax; you put it in the microwave and go buy it, you're paying sales tax... [LB405]

JEREMY JENSEN: Why? [LB405]

SENATOR HARR: ...as a finished product. Well, that's our tax system. So let me ask you that. So...(laughter) [LB405]

JEREMY JENSEN: I would... [LB405]

SENATOR HARR: You know, it is. So then we... [LB405]

JEREMY JENSEN: And I would argue that's... [LB405]

SENATOR HARR: Yeah, let me draw that analogy out, though. It'd be the same way with a house. With a new house...if I bought a new house, meaning newly constructed, I'd pay a sales tax. If I bought a house that was two years old, I wouldn't pay a sales tax, is that...? If we do it with your analogy of a final product, first time only? [LB405]

JEREMY JENSEN: That would be correct. [LB405]

SENATOR HARR: Okay. [LB405]

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JEREMY JENSEN: If you were going to do "final product," everything would be taxed as its final product, from... [LB405]

SENATOR HARR: Okay. [LB405]

JEREMY JENSEN: ...houses to boats to life insurance policies... [LB405]

SENATOR HARR: But only the first time, right? [LB405]

JEREMY JENSEN: ...or anything else. I mean, you know, we're just going to have to determine, you know, that's up to you guys to determine: is it services; is it embedded taxes? This is just my idea, and I really want to make it clear to this body, so thank you for allowing me to speak. [LB405]

SENATOR HADLEY: I very much... [LB405]

JEREMY JENSEN: And I again really want to thank Governor Heineman... [LB405]

SENATOR HADLEY: No, I appreciate that very much. [LB405]

JEREMY JENSEN: ...and Senator McCoy very much for bringing this to the table. This was brave legislation; I support it fully; and I can't thank you enough. [LB405]

SENATOR HADLEY: Okay, thank you, Mr. Stevens. [LB405]

SENATOR HARR: Well, thank you... [LB405]

JEREMY JENSEN: Thank you. [LB405]

SENATOR HARR: ...very much for coming. [LB405]

JEREMY JENSEN: Oh, I'm sorry. [LB405]

SENATOR HADLEY: Senator Schumacher. [LB405]

SENATOR SCHUMACHER: Thank you, Chairman Hadley. One quick question. Have you ever had to fill out a sales tax form? [LB405]

JEREMY JENSEN: A sales tax form. [LB405]

SENATOR SCHUMACHER: Yeah, when you... [LB405]

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JEREMY JENSEN: I haven't, but I'm soon going to, when I start a new business.
[LB405]

SENATOR SCHUMACHER: Well, you'll...let us know how you compare that to the
1040. (Laughter) [LB405]

JEREMY JENSEN: I...and, you know, that's a fair point, is that I...the last thing I want to
do is put more pressure on business. You know, I'm a business guy. But at the same
time, not everybody is preparing those business documents; those are businesspeople
doing that for a business. We're...we've mandated that everybody that makes income in
this state prepares a state income tax form, correct? [LB405]

SENATOR SCHUMACHER: Not unless they make \$32,000 a year, joint return. [LB405]

JEREMY JENSEN: Okay, most Nebraskans; is that fair? [LB405]

SENATOR SCHUMACHER: Well, a lot of Nebraskans don't make that kind of money.
[LB405]

JEREMY JENSEN: I know I only started, you know, recently making that kind of money.
(Laugh) So... [LB405]

SENATOR SCHUMACHER: Congratulations. [LB405]

JEREMY JENSEN: ...but I, you know...listen, it's...you get what I'm saying, though. Less
paperwork is good. People will like you guys a lot if you get rid of this, okay? Trust me.
And I...again, thank you for allowing me to speak. [LB405]

SENATOR HADLEY: Thank you. Mr. Stevens, thank you. [LB405]

JEREMY JENSEN: Okay, thanks. [LB405]

SENATOR HADLEY: Okay, I believe that's the end of the proponents. I'm going to take
a 15-minute break. I have, basically, 6:10. When that big hand gets down to... [LB405]

BREAK

SENATOR HADLEY: (Recorder malfunction)...what I'm going to do. We've got three
distinct groups here. We've got business-slash-manufacturing, who has an interest; we
have ag that has an interest; and we have healthcare-slash-nonprofit that has an
interest. So I would like to start, and then I would like to rotate through those three
groups so that we don't end up with eight businesspeople in a row. So we'll rotate
through the groups. So when you come up, basically, if you would tell us which group

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you're representing, or which...or if you're representing the entire process, tell us that. Does that make sense? Okay. We are now on the opponents. [LB405]

RENEE FRY: (Exhibit 9) Great. Good evening, Chairman Hadley and members of the Revenue Committee. My name is Renee Fry, and I'm the executive director of OpenSky Policy Institute. We are a data-driven, statewide, nonpartisan Nebraska organization focused on budget and tax policy. So I'd say to you that we are focused on policy in general. Our board members are made up of Republicans, Democrats, and independents from across the state. I'm here today to testify in opposition to LB405. OpenSky opposes this bill because it violates many principles of sound tax policy, shifts taxes to the middle class, will not lead to economic growth, and is not revenue neutral. The stakes for Nebraska are simply too high for such a risky gamble. As Nebraska contemplates major changes to the state tax system, a lot of erroneous information has been tossed around. It's important to have a debate based on facts; and when we looked closely at the facts, here's what we found. As I said before, LB405 violates many principles of sound tax policy. The best tax policy is to have a diversified mix of taxes. That typically includes broad sales, income, corporate, and property taxes, and an adequate rainy day fund to protect funding for schools and other public services during recessions. This broad tax platform helps the state maintain stable revenue in good times and bad. LB405, however, eliminates individual and corporate income taxes and makes our tax system heavily reliant on sales taxes. In the process, it will likely make it harder to recover from economic downturns and harder to fill the rainy day fund in good times. Income tax revenues tend to fall more sharply during a downturn, but they rebound much more quickly than sales taxes as the economy improves and are important to a rapid recovery. In fact, in the wake of the recession, corporate income rebounded much more quickly than other revenue sources and helped to fuel the recovery. Another violation of sound tax principles in the bill is the taxation of business-to-business sales. Multiple Nebraska-specific studies have recommended expanding the sales tax to more services. And many other tax experts have advised that states should avoid taxing most business-to-business sales. Even the Tax Foundation--we heard from them earlier--says that taxing business-to-business sales is universally acknowledged by tax experts as an economically damaging policy. Furthermore, the inputs taxed under LB405 will put extreme pressure on our agricultural and manufacturing sectors, which have to compete in national markets. The bill also aims to prevent people from leaving the state, but research shows taxes have little influence on where people live. And when people do move, scholarly evidence resoundingly shows that they do so primarily for new jobs, lower-cost housing, a better climate, or to be near family. Relative tax levels are, at most, a very insignificant part of most people's decisions. Income tax revenue is very significant, however, in the support of schools, roads, and health systems that help support our strong communities. And LB405 puts these very things at risk. I'm going to digress for a second based on the initial comments earlier today. There is a study of migration between Oregon and Washington that found people moving into a high-tax state, as Oregon, were more likely

to be younger and single, compared to those moving into the no-tax state of Washington. Portland was undergoing an economic boom during most of that period, and it was driven by start-ups and the growth of high-tech firms. So LB405 was introduced to spark job growth, but research shows no clear evidence exists between personal income taxes and economic growth. If you look at Figure 1 on your handout, you can see that many of the states known to have relatively high income taxes have economically outperformed many of those who have no income tax at all. And Nebraska, which has individual and corporate income taxes, has seen its per capita GDP grow faster in the last decade than all of the states that have no income tax. Research also shows there is no clear relationship between personal income taxes and unemployment. Several high-income-tax states have low unemployment, and several states with no income tax have high unemployment, as seen in Figure 2. And as is the case with GDP, Nebraska outperforms nearly all of the states without income taxes in unemployment. Furthermore, a 2012 study commissioned by the U.S. Small Business Administration found no evidence of an economically significant effect of state tax portfolios on entrepreneurial activity. Another study that same year examined Inc. magazine's annual list of the 500 fastest-growing U.S. companies and found no correlation whatsoever between where those companies chose to locate and the Tax Foundation's State Business Tax Climate Index. The vast majority of studies on this issue reach the same conclusion. What LB405 will do is raise sales taxes, which hit the middle class and poor the most, to pay for income tax cuts, which benefit the wealthy the most. This won't improve our state at all. It just shifts who pays the tax. It seems a big motivation behind LB405 is to improve our state's rankings in certain studies. But that doesn't mean it will help our economy. As Senator McCoy pointed out last week, we shouldn't cherry-pick rankings. Nebraska does very well in most business climate and quality of life rankings. And you can see some examples on Figure 3. I think Senator Harr had a lot of these as well; I think we were probably both looking at the chamber's Web site. So, more importantly, an entire body of research finds that these rankings, specifically the Tax Foundation business climate ranking, have no discernible relationship to the overall growth of a state's economy. If state taxes, which make up a tiny share of overall business costs, were a primary factor in where business locates, businesses such as Google and Facebook wouldn't be located in California. There are many reasons that businesses choose a state, such as proximity to markets and suppliers, the skills of the work force, utility costs, good schools, quality of life, etcetera. But taxes are not at the top of that list. A recent article in the prestigious National Tax Journal, titled "State Tax Rankings: What Do They and Don't They Tell Us?" by UNL's John Anderson, takes a close look at the Tax Foundation business climate index. This research finds methodological problems with the index and, more importantly, finds that the tax index variables have no discernible effect on state GDP growth. The bill was proclaimed to be revenue neutral when it was introduced, but it is not. The fiscal note for LB405 confirms that the tax shift would not in fact be revenue neutral for Nebraska's budget. Furthermore, the original proposal pointed to 2012 estimates of the value of the sales tax exemptions that would be eliminated. If you look at Figure 4 in your handout,

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the 2012 estimates are considerably higher than they had been in any previous year. The chart also shows that from 1998 to 2010, the potential revenue from eliminating those exemptions would be less than the income tax revenues by an average of about \$426 million a year. Just one year of a shortfall that size would have essentially wiped out the state's rainy day fund, which was designed to help Nebraska weather disasters and emergencies. Over the whole period from 1998 to 2010, that would have equated to a \$5.5 billion shortfall. You can see in Figure 5 that the state sales tax has failed to keep up with the modern economy, which should also be of concern. The income tax, on the other hand, has kept up with the growth of Nebraska's economy; and, in fact, it slightly exceeded it. Other issues to consider are that the tax shift would also add new fees on nursing homes, hospital stays, and prescription drugs and medical equipment. More-expensive healthcare means higher Medicaid costs and, thus, less money for other state priorities. Higher sales taxes would also create a windfall for roads funds because a portion of the sales tax is dedicated to that purpose. The fiscal note estimates that windfall at \$105 million in fiscal year 2014-15. Roads are an important investment in our state that we need to adequately fund, but funding our roads shouldn't require another large cut to the General Fund. Furthermore, eliminating income taxes would also mean that the nearly \$900 million in tax credits presently owed to businesses under the state's incentive programs would come entirely out of sales tax revenues. This bill won't create jobs. By far, the number one reason businesses create jobs is demand for their products. Businesses hire when they need more employees to meet the demand for their products. But the tax shift proposed in LB405 would raise taxes on the middle class and low-income families in Nebraska, as shown in Figure 6. Those are the consumers most likely to spend their paychecks here in Nebraska and boost our economy. But when 80 percent of the population has less money to spend, most businesses will suffer, and it is highly likely that this will reduce jobs in the state rather than create them. This will be particularly true in our manufacturing and agricultural sectors, as the taxation of business inputs impedes their ability to compete in national markets. If Nebraska truly wanted to create more jobs, we would increase our investments in education and a highly skilled work force, improve access to venture capital, and provide more training for workers in rapidly growing industries. Amenities and quality of life are important. There's new research that finds that young professionals and other members of the creative class are increasingly choosing where to live based on lifestyle considerations, like the availability of cultural amenities and good schools for their kids. So the real question is, what is the rush? The truth is we need not hurry. Rather than rush this bill through the legislative process in one session, we should step back and take a hard look at our entire tax code. A comprehensive review of our tax code such as the one called for in LB613 is the right way to proceed when it comes to tax reform in Nebraska. Our state's solid economy was built on prudent decision making and on investments in the proven bedrock of education, a strong middle class, and a sturdy public infrastructure. The decisions weren't rushed, and they weren't made without adequate factual research. That method has served us well in the past and will continue to serve us well today. Please note that I am leaving

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you with a bibliography so you can see the extensive research upon which our conclusions are based. Thank you for your time, and I'd be happy to answer any questions. I do want to note that I believe John Cederberg is following and will be able to give you a history of tax revisions, so... [LB405]

SENATOR HADLEY: Are there questions for Ms. Fry? Senator Harr. [LB405]

SENATOR HARR: Thank you. Governor Heineman said that nine other states without income tax have a better economic growth than those with high income tax. Can you elaborate on that? I mean, do you agree with that, disagree with that? Or how do you refute it? [LB405]

RENEE FRY: So those studies are based on population. And if you look at the 20 states with the most population growth in the last decade, they fall in the western and southern parts of the state (sic), and 7 of those are in the Sunbelt. So the studies that they're referencing look at population growth only. In fact, demographers identified a large number of reasons for that population growth. And it's largely lower population density--so they could grow faster, of course--more accessible suburbs, higher birthrates, Hispanic immigration, and warmer weather. So what we're looking at is GDP per capita in those charts, Figure 1 and Figure 2. And so what we're looking at is how we're doing in the state, how are our families doing in the state. And we're performing better than those no-income-tax states. [LB405]

SENATOR HARR: Okay. Is it your contention, then...and I...it's getting late, and I was spacing out a little. Is it your contention that the--and I'm not sure--no correlation between migration and tax policy, then? [LB405]

RENEE FRY: All of the academic research has found that there's no correlation. So migration is dependent on several other factors, but not on taxes. And I've included...there are a number of studies in the bibliography that point to that as well. So when you assume that a state grows because of tax growth, you're discounting all of the other factors. And so you can't discount...if you look, over the last decade, at migration patterns, they've remained the same regardless of changes in state tax policy. [LB405]

SENATOR HARR: Okay. [LB405]

RENEE FRY: Does that make sense? [LB405]

SENATOR HARR: I think so. I might have to review the transcript. And then, finally, I guess my question is, and I was looking for it, and I think you have a...you did a report that alleges that the majority of this goes to the top 20 percent. How did you come up with that, would be my first question, and then the second question is...I don't understand the methodology of how you came up... [LB405]

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RENEE FRY: Sure. [LB405]

SENATOR HARR: ...with that number. [LB405]

RENEE FRY: Okay. [LB405]

SENATOR HARR: If you could explain that. [LB405]

RENEE FRY: Yeah, so the Institute on Taxation and Economic Policy ran that for us. They have a very sophisticated model, and it's similar to the model used by CBO and used by the Treasury. There is a description in the bibliography, of that. But what they do is, for individual income tax, they look at the structure of the Nebraska tax code combined with information from actual tax returns and other demographic data to determine the effective tax rates for each income group. And then for sales tax, the model uses available data on both business-to-consumer sales and business-to-business sales, including those that are currently subject to the sales tax and those that would become subject to the sales tax. And based on that information, the model estimates how those taxes are likely to find their way into the price of various goods and ultimately how that affects budgets at different income levels. So it's looking at the final incidence of the tax, once it makes its way through the economy, where that falls. [LB405]

SENATOR HARR: Okay. And which one of those is that on here? I need to look at it. Well, I'll look at it in the future, but where is it on the bibliography, what number? [LB405]

RENEE FRY: Yeah, it's on the last...front page...so the fifth page. [LB405]

SENATOR HARR: Is it numbered? [LB405]

RENEE FRY: The pages aren't numbered, but... [LB405]

SENATOR HARR: Oh. [LB405]

RENEE FRY: ...it's "b." at the top of the last page. [LB405]

SENATOR HARR: Oh, okay. All right. No other questions. Thank you. [LB405]

SENATOR HADLEY: Are there other questions for Ms. Fry? Senator Schumacher. [LB405]

SENATOR SCHUMACHER: Thank you, Senator Hadley. Thank you for your testimony

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today, Ms. Fry. We heard today that the folks making six- and seven-figure incomes are the greatest beneficiaries on the income tax side. Let's assume that instead of doing this plan that has the pyramiding and taxes in it, that we just taxed end-user consumption of all goods and services in the state, just every...is there any studies or are you in a position to do any studies as to who would be impacted, who would end up paying more and less to make up for the shortage in tax money from the upper-income earners? [LB405]

RENEE FRY: Well, so tax policy would say that you do want to tax consumption at the consumption level, not at the business input level, right, so you don't have the pyramiding, and would also agree that you want it to be as broad as possible, and then you can lower the rate. So I actually don't know. You know, it depends; if you tax all consumption, and then would you lower that rate; or are you talking about offsetting it against the income tax, because the result would be different. [LB405]

SENATOR SCHUMACHER: Well, we've got to be revenue neutral; we've got to pay our bills. [LB405]

RENEE FRY: Right. [LB405]

SENATOR SCHUMACHER: So we're going to... [LB405]

RENEE FRY: So... [LB405]

SENATOR SCHUMACHER: ...you know, get rid of the income tax, and we've got to pick up the money, so... [LB405]

RENEE FRY: Oh. No, so you're saying if we get rid of the income tax. [LB405]

SENATOR SCHUMACHER: Right. Well, let's just assume, give benefit to the doubt... [LB405]

RENEE FRY: Okay. [LB405]

SENATOR SCHUMACHER: ...to the theory that this is going to be a service-oriented economy and the people we really want to be here are the folks that make a couple hundred thousand dollars a year and don't get dirty... [LB405]

RENEE FRY: Right. [LB405]

SENATOR SCHUMACHER: ...and that that's our target audience. [LB405]

RENEE FRY: Yeah, so if you eliminate the income tax, of course, the income tax is the

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only progressive tax that we have, which means that higher-income earners pay more in taxes. And then the sales tax is the most regressive tax, so lower-income earners pay more. So if you go from an income tax to a sales tax, inherently you're shifting the tax burden from high-income earners to low-income earners. So there are other things that we would suggest. So we're very supportive of looking at expanding sales tax on services, because, as you point out--I think there was discussion earlier, Senator Hadley mentioned it--we're more of a service economy than we were when this was put in place and when it was really a goods-based economy. So our sales tax isn't keeping pace with our economy. So we would want to look at that, at expanding tax on services. Then you could either do one of a few things. You could lower the sales tax rate. You could, you know, address the revenue adequacy problem; we've had this history of structural deficits. There's a number of things that you could do with that, but it's going to allow your sales tax to keep better pace with your economy. But if we get rid of the income tax, once we do that, then we are shifting the tax burden from high-income earners to low-income earners and middle class as well. [LB405]

SENATOR SCHUMACHER: Thank you. [LB405]

SENATOR HADLEY: Any other further questions for Ms. Fry? Thank you, Ms. Fry. [LB405]

RENEE FRY: Thank you. [LB405]

SENATOR HADLEY: Okay, next. [LB405]

JOHN CEDERBERG: (Exhibit 10) Good evening. I am John Cederberg, J-o-h-n C-e-d-e-r-b-e-r-g. And I'm, really, here in a couple of capacities, I guess the most important one being to appear on behalf of the Nebraska Chamber of Commerce and Industry and also on behalf of the Lincoln Chamber of Commerce. The other is that, from the private sector, I have a bit of institutional memory of major tax reform in this state. I was part of the process to adopt the depository institution tax in 1985, was also part of the 1987 major tax revision, and then was part of the Nebraska Advantage Act revision. So I've been around. And I don't intend to relay that history to you, but I did want to make myself available to answer any questions that you might have about the progress of tax changes in our state. You have my written testimony, which I prepared. In view of the hour, I'm going to abandon that. The Nebraska Chamber of Commerce and Industry didn't have a board meeting until tomorrow. So in order to be timely, the executive council met. The executive council is empowered to act for the board in the interim between meetings. And we voted unanimously except for one abstention--my testimony says two, but that was my mistake, in looking at the minutes--with one abstention, to oppose LB405. Our executive council is made up of our elected officers, which are the volunteer chairman, the chairman-elect, the immediate past chairman, the district vice chairs, and the treasurer, which is me. We had some manufacturers on the

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executive council, but we also had members from the healthcare industry, from agriculture, an auto dealer--our chairman-elect is an auto dealer--and, of course, I'm a professional. The public policy steering committee of the Lincoln Chamber also met and advanced to the board the recommendation that you see printed in my testimony; and they then polled their board by e-mail, and that recommendation was adopted. I would say...I really want to emphasize two or three things here. One is I didn't hear a single comment adverse to the idea of either lowering or eliminating income taxes in the state of Nebraska in our executive council meeting. And I am told by the Lincoln Chamber that this was true in their case. Our opposition to LB405 rests upon the pyramiding of sales taxes in the bill. Sixty-five percent of the new sales taxes come from manufacturers. Another 11 percent, as I calculate it, come from agriculture. They may calculate it higher than that; I don't know how all of the exemptions that don't necessarily focus on manufacturing might play out in agriculture. As I told one of you, and I forget who it was, I am a first-generation non-farmer in my family--my grandfather and great-grandfather farmed in Sweden--but I've been away from agriculture too long to talk to you about how this would, you know, how all of the exemptions play there. But this gets us up...you know, 76 percent, at a minimum, is pyramided sales taxes. And that is the reason that our membership are very much opposed to LB405. I had a...I was a little disappointed in a headline in this morning's Omaha World-Herald that referred to "big business." I don't know about Senator...how this bill may have interrupted Senator McCoy's business, but I know it's made mine very non-profitable here for a couple weeks as my phone rang. But I have a friend, or an "acquaintance" is a better term, small manufacturer, one plant in Nebraska, told me that if LB405 passed in its present form, because of the increase in their net tax liability--and this is net of their income tax--that he would be forced to sell his core business to somebody out of state who could move the manufacturing to their facility. And I said, why? And he says, you know, I have just completed and moved into, a few years ago, a very modern plant; I don't have the capital to build another one someplace; and the impact of this on my competitiveness is such that I would need to sell it while it had value. Now this is a homegrown manufacturer operating in a new, very modern, high-tech plant. He is doing all of his manufacturing in Nebraska; he is selling virtually all of it out of state; and he is hiring well-trained floor employees who can operate his highly computerized equipment. This is the kind of manufacturer that we have tried to incent and grow in our state since 1987. And, you know, to hear him say that he would have to sell really bothered me. So I talked to his chief financial officer, and his chief financial officer told me that, net of the income tax reduction, it would increase their state liability by 4.5 times. And in the interest of confidentiality, I won't repeat the numbers; but I was given the numbers, and it calculates. Now, that focused me on something that is very important about this, and it has kind of come up in a tangential way earlier today. And that is the income tax as we collect it is apportioned by where the product is sold. Remember, he sells virtually none of his product in the state of Nebraska; whereas the pyramided sales taxes on his inputs--and he has fairly expensive inputs--would all get taxed in the state of Nebraska. And so, you know, this is the source of the opposition from the State Chamber. We

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commend Governor Heineman for bringing the discussion. As I think was mentioned maybe by Senator Harr earlier, we tend to do this about every 25 years. I remember being in college and asking Governor Tiemann why it is that he would run so hard for Governor when in the simultaneous election the voters who elected him made the property tax unconstitutional for the state and repealed the income tax. And he says, "John, sometimes you take a chance." But you know, we did it then. We did it again in 1987 when we totally rewrote the individual income tax, tried to keep it as connected to the federal as we thought we could, totally rewrote the corporate tax. I was involved in the revision of the combined income tax reporting, the unitary reporting for corporations. And so it is 25 years now, and it's time to be talking to it again. And both chambers are very anxious to be involved in that conversation, to participate in it, to help evolve a plan that is usable. This one, though, is not good. I get about two or three e-mails a week from accounting firms and major law firms, with their state tax updates. We have gotten their attention. One of the things that we don't appreciate because we are so accustomed to our system here in Nebraska is that every bill in Nebraska gets a hearing. In most states, the only bills that get a hearing are the ones that are going to move. And so the fact that this hearing is scheduled today indicates to a lot of the national analysts who are doing these newsletters that this bill is going to move and that we are, in fact, going to impose these taxes. The other thing that they do not understand is our nonpartisan approach and that bills "morph" significantly between the green copy and the passed copy, the Final Reading orange copy. They look at the copy that was subject to hearing as likely to be pretty close to the final product. We are not getting good publicity. And both Chambers have asked me to say that they would urge the committee, or we would urge the committee, I should say, make it first person, to kill LB405, not kill the discussion, though, not kill the process. And if we can get to a consensus bill that moves Nebraska forward truly and does not endanger our manufacturing core or our ag core or healthcare--because we have a wonderful nonprofit healthcare system in this state--that we can gut another bill later and still move it this year, if we can. If we need the summer--we have a very good history of task forces generating very good bills in this state--if we need the summer, we have a new bill next fall. I don't view that as a raging disaster. I do view it as a risk, because it can lose momentum. But if we're all dedicated to the discussion--and I think Senator Harr is dedicated to the discussion, and I am--if we're dedicated to the discussion, we can get it done. But we do need LB405 as such not hanging over our economic development efforts and not giving us bad publicity out there in the rest of the country. With that, I'd be happy to... [LB405]

SENATOR HADLEY: Are there questions for Mr. Cederberg? [LB405]

JOHN CEDERBERG: ...try and respond, yes. [LB405]

SENATOR HADLEY: Senator Sullivan. [LB405]

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SENATOR SULLIVAN: Thank you, Senator Hadley. I just wanted to...considering your profession and also in the spirit of this ongoing conversation, would we be remiss not to look at broadening the sales tax base and maybe including such things as services? [LB405]

JOHN CEDERBERG: Well, let me answer your question twice. My State Chamber hat says, no, we would oppose. I mean, we have a book that's actually published, you know, talking about sales taxes on services, that we have a longstanding policy that would oppose sales taxes on services. Now, taking my State Chamber hat off, you know, I have long wondered why we do not tax at least the...well, maybe put it differently, at least the discretionary consumer services--medical care bothers me, okay--but I've long wondered why it is that we don't tax consumer services. Now, professional services have a very, sort of, diverse history. You know, Florida tried this; they did it the wrong way. So many consulting and professional firms--particularly advertising, in their case--announced their withdrawal from Florida, moving up to Georgia, that they repealed the tax on services before it went into effect. You know, there's a right way and a wrong way to do this. South Dakota, in my view, did it the right way. South Dakota does tax professional services. But you only charge the tax, if you're a South Dakota lawyer or a South Dakota accountant or a South Dakota engineer or architect, you only charge the South Dakota tax to your South Dakota customers; you don't export it to your customers in Iowa and Nebraska and Wyoming and Montana. And that has, I am told by the acting dean of the law school at the University of South Dakota, a couple of law firms with whom I've done merger and acquisition projects--and I've talked to them about it--that, in conjunction with no individual income tax, has proven to be a very successful model. [LB405]

SENATOR SULLIVAN: Thank you. [LB405]

SENATOR HADLEY: Mr. Cederberg, I have to ask the question. The Governor gave us the "100 Next Generation Ideas" from the State Chamber, and it seems like maybe we're talking about two different things, because number 25 says getting rid of the state income tax would help put money into everybody's businesses, attract retired people, and make the Nebraska way of life even better, implement a flat tax, eliminate state income tax on Social Security taxes in Nebraska to help attract seniors. Three of the 100 items are arguing to eliminate the state income tax. So I have to ask...it's interesting since that's what the Chamber is telling us on one side, and the Governor has come up with an idea of how we do this, and it isn't the right idea. [LB405]

JOHN CEDERBERG: I don't know, you see, I didn't see the photocopy that was distributed; I have a couple copies here of the complete report. I owe the committee probably a little bit of history as to what's happening here. We have a project that former Director of the Department of Economic Development Richard Baier is spearheading for us called "Forging Nebraska's Future." And we set out to touch the state, literally, for

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ideas on how to improve Nebraska's economic future, not just in taxes, I mean, education, all sorts of things. As a matter of fact, on page 3 of that report is a listing of sort of the overall ones: modernize government and improve efficiency; cultivate a dynamic education system, that would be dear to Senator Sullivan; create a world-class work force; foster a strong business climate; build healthy and connected communities; and grow Nebraska's population to 2 million residents by 2022. Then we set up a Web site and also a Facebook page, went to the social media, and the younger people did more on that than some of the more established members, you know, liked the Web site. But we solicited ideas for improving Nebraska's future, how to implement these "NExT Generation" strategies. Something like 5,800 people responded, and we got something like over 500 ideas. Now, the reason that the ideas didn't match the number of responses is that people seconded other people's ideas, because they could see what was already on there. And then the task force, the Forging Nebraska's Future group, which is listed, actually, on the inside cover, if I recall--yes, the inside cover--pared those 525 ideas into the 100 that were the most responded, that were the most important to the 5,800 people who responded. Now we have an awful lot of members. You know, there are a lot of nonmembers who offered us ideas, and that was our objective. This wasn't a point to touch just the State Chamber members; this was an effort to touch the state. Perhaps some of you got on the Web site and offered ideas; I hope you did. But, you know, these 100 ideas are distilled from the 500. They are not State Chamber policy; they have not been reviewed with the board. Our State Chamber policy on income taxes does not address a one of the three items that are in here. They are simply put...this is the distillation of the input that we got from that Web site very, very early in the forging process. There's a lot, lot to go here. But I did want to dispel the idea that we're speaking out of both sides of our mouth. Item 1: We're not here opposing the income tax specifically, but we're here opposing the pyramiding of the sales tax. And Item 2: This is very much...I'm very excited about the progress we're making here. This is a project that, in some respects, is tailored after one in Florida and another one, I believe, in Kentucky or Tennessee. But I think Richard is just doing a wonderful effort. But don't overreact to those 100 ideas. [LB405]

SENATOR HADLEY: Okay, thank you. Senator Harr. [LB405]

SENATOR HARR: That was my question. [LB405]

SENATOR HADLEY: Okay. [LB405]

SENATOR HARR: Thank you. [LB405]

SENATOR HADLEY: Okay. Senator Schumacher. [LB405]

SENATOR SCHUMACHER: Thank you, Senator Hadley. One quick question, to your knowledge, are there many manufacturers who have suspended consideration of

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investment in Nebraska until we've disposed of this? [LB405]

JOHN CEDERBERG: I don't know if...I have been told there is at least one announcement that is on hold, pending the resolution of this. [LB405]

SENATOR SCHUMACHER: Thank you. [LB405]

SENATOR HADLEY: Thank you. [LB405]

JOHN CEDERBERG: Whether there's more...understand, Senator, while I'm...I just love what I do, being involved over here, my business is to be the help desk to independent accounting firms. And virtually none of them are in Nebraska, so I don't hear a lot of the local stuff, either. [LB405]

SENATOR HADLEY: Thank you, Mr. Cederberg. Thank you so much. [LB405]

JOHN CEDERBERG: Thank you. [LB405]

SENATOR HADLEY: Okay, we've had a general; we've had one from, basically, business; so if we could have somebody from ag or the nonprofit/healthcare. [LB405]

MEG BRANNEN: (Exhibit 11) Sort of, maybe, one of those. Okay. My name is Meg Brannen, B-r-a-n-n-e-n. I grew up in Bellevue, and I'm a senior at the University of Nebraska-Lincoln and the president of the Residence Hall Association. RHA is the governing organization for the residence halls at UNL, made up of 38 senators elected from each hall and a 4-member executive board elected by all 6,000 residents. I'm here today as a representative elected by my peers to express RHA's opposition to LB405. This bill would add sales tax to the cost of living in the residence halls, which for most students would be as much as \$667 added to their cost of attendance. Last night, RHA passed a resolution in opposition to LB405, with 33 in favor and 1 abstention; that's on the back page of what you were all just handed. I'm going to tell you about how this bill would affect my peers and me. I'm the oldest of eight children. Back home, they are what my mother refers to as a small country of teenagers and the youngest, my little brother, who turns two next week. My parents, like all parents, wanted a better life for me than they had. And sending me to college was the obvious means to this end, as neither of them have degrees. But paying for college just wasn't in the budget, so I'm responsible for paying for every dollar of college costs on my own. I work two jobs to try and keep my debt to a minimum. Every Wednesday and on the weekends, between midnight and 6:00 a.m. when most people are sleeping, you'll find me at the front desk of Abel/Sandoz Hall making sure residents are safe and sound. A typical weekend for me includes working until 4:00 a.m. at the desk, waking up at 9:00 on Saturday morning to head to my second job, as a soybean demonstrator in grocery stores across Lincoln, Omaha, and Grand Island, until 4:00 p.m. Then I'll go home, maybe take a nap, get

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some homework done before heading back to Abel/Sandoz for another midnight-to-4:00 or -6:00 a.m. shift. For me, \$667 is another 92 hours that I have to spend working. This added cost would likely have made living on campus out of reach for me. Living on campus has impacted my life in more positive ways than I can count. It's given me a support system for anything from roommate conflicts to personal wellness. It's given me leadership opportunities that have landed me jobs and internships. And it's kept me engaged as a student. For me, the added \$667, that 92 hours of extra work, means commuting to school and giving up the things that I really love about UNL. For Matt Knapp (phonetic) from Peru, Nebraska, it means at least two semesters of books. For Michael Dunn (phonetic) from Connecticut, it's a plane ticket home over Thanksgiving break. And for Sarah Gilchrist (phonetic) from Bellevue, Nebraska, it means three credit hours each year, allowing her to graduate on time. University housing receives no state funding; the operations must be entirely self-supporting. And while university housing generates some other revenues, primarily through summer conferences, approximately 95 percent of the annual operating cost must be supported by students. For incoming freshmen, who are required to live on campus, this added cost could be a barrier to coming to the university. And for upperclassmen, it would put on-campus housing out of reach. Research indicates that students who live on campus are more likely to graduate on time, they have higher GPAs, and report higher satisfaction with their university experience. Keeping students on campus not only benefits every student who lives with us but also helps the entire university. Our success in recruiting is not only dependent on the quality of our academic programs, it's also dependent on the ability to offer a learning and living environment conducive in assisting a student to meet or exceed the requirements for graduation. Our residential facilities are an important factor in a student's decision-making process as well as their success as they progress through their college education. While we know that many of our upper-class students live off campus, our research indicates that the longer a student lives on campus, immersed in the campus environment, directly correlates to the likelihood of their success as a student. We should be doing everything possible to keep students in the residence halls, not adding obstacles and barriers. I ask you today not to put this burden on our students, not to put it on Sarah or Michael or Matt, and not to put the burden on me. Thanks for allowing me to testify today, and I'm happy to answer any questions you have. [LB405]

SENATOR HADLEY: Senator Janssen. [LB405]

SENATOR JANSSEN: Thank you, Chairman Hadley. And is it Ms. Brannen? [LB405]

MEG BRANNEN: Brannen, yeah. [LB405]

SENATOR JANSSEN: Thank you for coming. And I, like you, worked two jobs to work my way through college, had some support from the G.I. Bill. And I'll be brief, but we did have a two-year freeze just pass on, or presumed pass, on tuition, so that would

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buy...that's probably more than \$667 over a two-year period. So is there some part that says we should do a little bit more for everybody, because the taxpayers are paying that? [LB405]

MEG BRANNEN: Right. [LB405]

SENATOR JANSSEN: And we gave \$500 million last year to the university. And some of that went to offset tuition costs, much for...like it did for me when I was at a state college, up at Wayne State. [LB405]

MEG BRANNEN: Um-hum. [LB405]

SENATOR JANSSEN: So, I mean, there has to be some give/take in any policy; we just can't be opposed to everything. [LB405]

MEG BRANNEN: Absolutely. That tuition freeze actually does not exceed what would be saved here. That would save \$1,000 over two years; where this would add \$1,334 over two years. [LB405]

SENATOR JANSSEN: So... [LB405]

MEG BRANNEN: So it's negated, essentially. That savings... [LB405]

SENATOR JANSSEN: So you'd want to trade one for the other then? So when I go to my colleagues [LB405]

MEG BRANNEN: I would like to keep both of them. But if I had to choose one, obviously I would choose not taxing, because that's saving students more money, students who live on campus specifically, who are, like I said, more likely to graduate on time and more likely with higher GPAs. [LB405]

SENATOR JANSSEN: Yeah, certainly. Great benefits there. And I'm not badgering; I just...sometimes we've got to decide one or the other. Now I have to tell my friends in Appropriations to get rid of that two-year tuition freeze and... [LB405]

MEG BRANNEN: No thank you. [LB405]

SENATOR JANSSEN: I'm just kidding. Thank you for coming here. I appreciate it. [LB405]

SENATOR HADLEY: Senator Schumacher. [LB405]

SENATOR JANSSEN: Thank you. [LB405]

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SENATOR SCHUMACHER: Thank you, Senator Hadley. Two quick questions...or one question and one comment. Congratulations on working hard. [LB405]

MEG BRANNEN: Thank you. [LB405]

SENATOR SCHUMACHER: It'll pay off. Secondly, I see you're a senior; among your peers, as you discuss where you're going to move to, what you're going to do, how often do you hear people saying, "Well, you know, Nebraska has an income tax; can't stay here"? [LB405]

MEG BRANNEN: I can say quite honestly, I have never heard that. As I prepare to graduate, I'd never even thought to think of that, so... [LB405]

SENATOR SCHUMACHER: Thank you. [LB405]

SENATOR HADLEY: Thank you. Thank you, Ms. Brannen. [LB405]

MEG BRANNEN: Thank you. [LB405]

SENATOR HADLEY: Okay, I think we've heard from a general, a business, and a, basically, I consider it nonprofit. Is there an ag? [LB405]

GALE LUSH: (Exhibits 12 and 13) Good evening. Chairman Hadley, members of the Revenue Committee, my name is Gale Lush; I live at Wilcox, Nebraska. I spell my name G-a-l-e L-u-s-h. And I am here as an opponent to LB405. And I handed out a handout, and one of the pages is this chart. It was prepared by the USDA Economic Research Service, and it deals with Nebraska net farm income from 1990 to 2010. And on the following page I have another chart that kind of shows what those numbers actually are, in case you have poor eyes and don't want to guess, and it was written by Bruce Johnson. And the following page, I have a pie chart that was done by OpenSky based on LB405, and it shows what the tax shift will be if LB405 goes through. And you can see on the bottom that agriculture takes a very large hit. And on the following page is another pie chart, which is basically about LB406; and even though the amount is less, it's still the majority of the hit. The next page is basically in case not everybody is an accountant and can't remember what the tax brackets are. It shows what the tax brackets are for Nebraska so that you can kind of relate that to some of the front pages. And then the last two pages...before I came down here I was supposed to work on a cash flow for the bank and I was just putting together expenses for next year, and this shows what my 2013 operating expenses are for irrigated corn on my farm. And it also shows what I believe the increased tax will be on the inputs that I have on that farm. And when I add all those together, I come up with a cash...or a break-even price of about six ninety-six. But I want to go back to this front chart. If you look here at 2002,

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Nebraska net farm income was about \$857 million, and then flip back here to what the tax shift is going to be, and you'll see that under this proposed tax shift, where we put a sales tax on agricultural inputs and farm machinery...and on this farm machinery, not only...some of the people have called it a pyramid, I'd like to call it a value-added tax, like they have in Europe. But each time, you have a level...well, each time, you go up a little bit, it gets higher. We have a plant that we do business with, we do business with International, it's made by New Holland, and they make combines in Grand Island. And if they have to pay a tax on their components and ingredients, that adds about 7 percent if they pay the city sales tax also. And then if they sell that combine or tractor to one of us farmers, we have to pay that 7 percent tax again. It's compounded. We all know how compounding is bad for the federal budget on the interest situation; it's also bad when you have to pay taxes that are being compounded. But getting back to 2002, if you look at the net farm income for that year, of \$857 million, the shift of \$982 million wipes out all the net farm income that we would have in that year. So we would be paying almost 100 percent of our income as input taxes. And so not only...in that year we would have to actually go to the bank to borrow money to pay more input tax, because there was a terrible drought that year and a lot of people didn't have good crops. And that's always been the problem with agriculture; it's cyclical. You depend on the weather; you depend on the markets; and sometimes the government doesn't cooperate also. But...so you have such a high tax there that it would put a lot of people out of business. And even in the good years--I would go to 2010--the input tax is still 25 percent of the net farm income of that year. And if you drill down into this--and maybe Professor Hadley would help me out if I go astray--but I figured that there's 47,000 farmers in Nebraska and they probably get a \$11,400 standard deduction, like they would on the federal return, and then they get a credit, which is about \$3,700, similar to the federal term; that's about \$18,800. If you take that times the 47,000 farmers, it's...the deductions are actually a little bit more than what this \$857 million is. So in 2002, farmers would not have had to pay a income tax because they didn't make any money; they didn't make any taxable income. What I just did was take off the standard deduction and the exemptions from the net farm income to determine what the taxable income was. Probably as a industry as a whole--and, of course, everybody is different, so some people would have paid, and some people would have had horrible losses--but as a industry as a whole, the tax would have been zero. And that probably makes policymakers, governors, who have to balance the budget, upset. But if those farmers had had to pay that \$982 million in input taxes and taxes on machinery, they would have had to borrow money at a loss. And even in the good years, the tax, based on inputs, would have been 25 percent of the net farm income, and that's substantially more than what the...if you'll go back to the Nebraska tax tables, there's nothing there. When I hear of people saying they can't pay 2.5 percent, I, well, I wonder, because those are the kind of taxes we would be faced with: in a bad year, about 120 percent of our income; in a good year, about 25 percent. And so that's one of the reasons LB405 does not work with agriculture. And that bill is probably the worst, and LB406 is not much better. It's just...it's the difference between getting run over by a train and a bus: the end result is always the same, you're still

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dead. And at the end of the day all us farmers want to do is try to keep in business. And whether we get LB405 runs over us as a train would or we get hit by the bus, it's not going to make too much difference in the end result. And I've heard and I've read in papers that, well, farmers need to pay this; they can afford it; you've had a couple of good years; so what's the problem? I passed out this little pamphlet by Top Producer that had an article about how we're sitting with debt on the farm. Just recently they...one of their "Top Producers" in the nation filed bankruptcy about 15 days after he got the award. And he was a large, go-go, aggressive farmer from Michigan, and now he's in Chapter 11 and is being liquidated. But basically what they're saying is that the "debt-to-asset ratio in 1979 was 24.6 percent and in 2011 it was 25.5 percent," and this is in Kansas. And those people with over "40 percent debt to assets in 1979 was 19.4 percent and 23.3 percent in 2011." But the people who were leveraged 70 percent in 1979 was only 1.3 percent, but by 1981 things had changed so much that we started going off the cliff. And in 2011--that was a year ago--the leveraged farmers who were 70 percent is 5.7 percent of all farmers. And it's...so we're actually in worse shape because they're concentrating the debt in the largest farms. And the...also, you can also believe that they're also concentrating that debt in banks. And this...of course, they have their own responsibility to do the right thing, but a tax like this on inputs would just cause more problems for those farmers who are responsible and have been trying to take care of their debts and keep good ratios. But I went through the '80s, and anyone who was over 40 percent was, leveraged, debt-to-asset ratios, was ready for the bankruptcy court, ready to be sold out. And a lot of baby boomers my age aren't in farming anymore. I'm one of the few that are left. And my son came back to the farm four or five years ago; he graduated from the university. And I'd like to keep him there. But on my particular farm, going back to my cash flows, it's going to cost me about \$20,000 a year extra in taxes. And so you've got some decisions to make. Is this going to actually go through, or...? I can't leave, like a manufacturer or even a lawyer. At one time I went through law school. I was going to be a CPA, but my friends said I had too much personality, so I decided to become a tax lawyer. (Laughter) And then I made a major career move that was really bad and I became a farmer. But I can see that we're just about ready to go over the cliff again and repeat the '80s. I hope it's not as bad as the '80s. But if you look at the numbers in Kansas at least...and I think they also go on, in that article, in saying Nebraska has the same situation, maybe not quite as severe, but they do have it, that we are there. And it's already bad enough that we may be in a bubble, but we don't need government also pushing us over the cliff. [LB405]

SENATOR HADLEY: Thank you, Mr. Lush. Are there questions? Senator Sullivan. [LB405]

SENATOR SULLIVAN: Thank you, Senator Hadley. Thank you, Mr. Lush. Just one quick question. In addition to these challenges, what have your property taxes done? [LB405]

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GALE LUSH: Well, I live in the Republican River valley. And I think I've got it on here. We pay a couple of taxes for real estate. We pay an occupation tax, which is a new tax for us, which is, basically, to pay for anything that does with water. Because if we need augmentation or something like this, we have to have an income flow to help pay for that, because that's the only way the state will...the state will not back us on that. So we are self-helping ourselves. But then the...I believe, on this particular farm the real estate taxes was \$40. And it kind of depends if they built a new school in the last few years or if...or how much machinery your neighbor bought. If everybody buys something at the same time, it causes the rate to go down a little bit. But basically most of the cost is due to schools. And rural schools get...Wilcox hasn't got any...is almost zero state aid, so...it's very low. [LB405]

SENATOR HADLEY: Okay, thank you. Any other questions for Mr. Lush? Seeing none, thank you. Okay, that ends the opponents; we will now go to the neutral. [LB405]

DAVID BROWN: (Exhibit 14) Mr. Chairman and members of the committee, good evening. I am David Brown; that's B-r-o-w-n. I'm the president and CEO of the Greater Omaha Chamber of Commerce. I appreciate the opportunity to offer our thoughts on this proposal. I will be very brief, as many of my points will be redundant to those you've already heard from both opponents and proponents to the legislation before you. The chamber has analyzed LB405 and LB406 at length and have consulted with chamber members on the effect that this would have with them and the broader business community, and we conclude that we cannot support this proposal in its current form. While there is widespread support for the notion of lower income taxes from both employers and employees, the apparent negative effects this would have on so many employers, from manufacturers and processors to hospitals, agricultural producers, and charitable organizations, would be substantial. In particular, the incentive for manufacturers to locate out of the state of Nebraska is significant. Placing a sales tax on business component parts and ingredients is simply unacceptable if you want to create an environment of growth in Nebraska. As for our neutral position today, I'll note the chamber has long supported reductions in the income tax, both individual and corporate, and we believe that would have a strong economic development effect if that were to happen. We have also advocated always for a simpler tax code. But we're not so naive to believe that the substantial reductions in income taxes can occur without some exemptions going away. We believe that many of the exemptions slated for expiration in LB405 and LB406 are not acceptable and would cause more harm than benefit. So we're willing to engage in a process to find a way to do that without hitting employers with what, in many cases under LB405, would be a net reduction in company income. We believe, therefore, the discussion should continue but with substantive changes in the bill that is before you. Finally, we think it's important that discussion on these particular bills move along at a rapid pace. Even the notion that the state might be eliminating some of these exemptions and making significant changes to the Nebraska Advantage Act has already caused some existing firms to put on hold decisions

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regarding expansion in the state and could have the same chilling effect on companies from outside Nebraska who are considering investments here. We know it's a difficult task and thank you for beginning the conversation as well as your time and consideration today. And with that, I'll be happy to answer any questions you might have. [LB405]

SENATOR HADLEY: Are there questions for Mr. Brown? Seeing none, thank you, Mr. Brown. [LB405]

DAVID BROWN: Thank you. [LB405]

SENATOR HADLEY: The next neutral. [LB405]

NICK NIEMANN: Good evening, Senators. And, Senator Hadley, and members of the Revenue Committee, pleasure to be here to speak with you today. My name is Nick Niemann, N-i-c-k, last name N-i-e-m-a-n-n. I'm a partner with the Nebraska law firm of McGrath North, and I wanted to share some of my thoughts here in a neutral capacity, just on behalf of myself tonight. I've had the opportunity over the last 30 years to work with many companies in Nebraska, both small and large companies, those that are based here, and those that are outside the company, outside the state, and looking to expand or to grow in Nebraska. A lot of my work in this area started back in 1987, although I wasn't here in 1967 for the initial enactment of the sales and income taxes. I was very involved in the 1987 legislation, what's commonly referred to as LB775. I was the principal designer and drafter of that legislation, and I've had the chance to work on a lot of legislation since then. I was the lead on a study on behalf of the business community back in 2004 to look at how to improve the incentive programs that we have, and that...those recommendations led to the Nebraska Advantage program. So I'm very familiar with how the incentives work, and I've had the chance, working with different companies, to work with the Department of Revenue as well in terms of various aspects of Nebraska state and local taxation. I just wanted to comment on really some of the things that I see that are very good about the Governor's proposal and a couple things that I think really have to give us some pause. And hopefully, as I've seen from the discussion today, there is a real common interest. And it's very typical of Nebraskans to work together to try to fashion the best solution. A couple things that I think are very good about the Governor's approach. First is that he sees this as an overall revenue-neutral perspective, and by that I mean not just from the standpoint of the state but also in terms of how a company would look at this. Companies, at least the ones that I've worked with over the years, and it's been several, do look at taxes, and they look at it not just from their perspective but also from the perspective of their employees. So I think it's a good observation that the Governor has made that companies will view this both from the standpoint of their own net effect as well the effect on their employees. The second thing that I think is good about the Governor's bill is that he does propose to repeal the individual alternative minimum tax. That's something that's

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been a real negative for Nebraska when we look at the different studies that are out there. Some of the ones that were mentioned today, like the Tax Foundation, the U.S. business index study that also looks at various tax and nontax factors, also hits us for the individual alternative minimum tax. So I'm glad to see that that's part of the proposal, that that would be repealed as well. The third thing I think that's very good about the Governor's proposal is that he recognizes the need to stay competitive. I've had the chance over the past several years in working with companies to look at their business model and to look at what is it that they need to do and to adapt in order to address the components of their business model. And those that I work with realize there's nine parts to every company's business model, no matter what kind of company you're in. And so they may look at who should be their customers, what should they charge their customers, how do they keep their customers, what is their cost structure. And this tax issue is certainly a big part of their cost structure. They also realize that their business models have a much shorter half-life. This is because of the things that are happening globally, in terms of new developments, new technology, new ways to do business. And I think the Governor recognizes that, as a state, we also have to look at how competitive are we and to recognize we have to change and probably change more frequently and more quickly in terms of how we address our ability to compete with other states for jobs and for business growth. So here, from that perspective, a state also has the same components of its business model, and one of those is what is the cost, what's the charge that the state imposes in order to live and to do business here. And so I think it's a very good observation by the Governor that we can't sit back and simply say, we've done real well. We can't sit back and just assume it's going to always be that way. We have to try to get out ahead of it, and I think this is headed in the right direction. Income taxes are important to companies, both corporate and personal. I think that's the right thing to take on. With that, just three quick comments that I think...that are concerns. And I'm not going to talk about all of the different exemptions that are being repealed. I know there's others who are addressing that, but three quick points. One is that there are some significant changes here in the Nebraska Advantage program, and one of those is to change the 10 percent investment credit down to 5 percent. And I understand that's in conjunction with the fact that if you have no income tax, then that investment credit, there's some grounds to say that could be less. But we've had in our state an incentive program now for 25 years that was really based on how do we do something that is significant, that's going to impact a company's decision to stay here, to come here, to grow here. And that 10 percent investment credit has been a big part of that package. So if, I would simply suggest, if the committee determines that they...that the repeal, the complete repeal of the personal and the corporate income tax can't be done but perhaps some other solution comes about that might include keeping the income tax and simply reducing the rates, that that part of the incentive package needs to be looked at again to say, should that 10 percent investment credit stay there rather than drop that to the 5 percent. Second point of concern with the Governor's bill, and this might have been inadvertent, is that there has been an exemption in the sales tax laws. And, really, two things I want to address here as my final two points. There is a

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difference in exemptions. Some exemptions, we call them exemptions, but they're really intrinsic to how does the sales tax system work. And the other exemptions are more discretionary, for various policy reasons or business reasons, and that's why we have exemptions such as for manufacturing equipment or for farm equipment and so forth. Well, one of the things that's intrinsic in the sales tax system is we tax the end user at that point where the end user is at. So one of the provisions that's been built into the tax statutes says that if you are shipping product out of state into interstate commerce, then we're not going to tax that in Nebraska. That's going to be taxed or not taxed in the state of destination, where that ends up, and that makes sense that it's taxed in the state where the final consumer is at. So there's a couple ways that the law does that. One is based on how do you source sales. The other is a provision that says if it's going to go into interstate commerce we won't tax it here. And I noticed, in reading through the bill, that in the repealer sections at the end, that section was repealed. I don't know if that was inadvertent or not, but that is something I think is intrinsic to a good sales tax system. The other point, in terms of an exemption, that is intrinsic to the sales tax system is this concept of, what we've heard today is, pyramiding or cascading or what's equivalent to a value-added tax, a European-style VAT tax. And that's where we tax components that go into the final product. Now I think that that distinction has been somewhat blurred today. There are certain components, inputs that companies purchase. And when they use those inputs up, when they don't become part of the final product, then most sales tax systems would say, you're the end user of that if you used it up in your process, whatever business that is. So if you have used that up you are the end user, and that's the time when sales taxes are typically imposed. But it's when that input becomes an integral part and it physically or chemically enters into the final product and it's an integral part of that product, that's when you'll see, from the surveys that we've looked at, no states in the country tax that. Now Hawaii imposes a tax on that at one-eighth of their regular rate, but they're a bit of a different situation down there. But if you look at the other states that impose a sales tax, they do not impose a tax on these inputs that become an integral part of the final product because, if you did, you end up with that cascading or that pyramiding effect. And the Governor's bill does that. And so as someone who has worked with companies and would look and say, how do I think companies would react to that, I think that it, in essence, would put a black spot on Nebraska, that we would be the only state, really, that taxes those inputs that become part of the final product. So with that, I'll finish. I'd be happy to take any questions that the committee might have. [LB405]

SENATOR HADLEY: Senator Schumacher. [LB405]

SENATOR SCHUMACHER: Two questions. First, as we have our discussion here today, every once in a while I feel the cross hairs move across the lawyers. Taxation of legal services: Good or bad ideas? [LB405]

NICK NIEMANN: I think that John Cederberg said it very well. There is a right way and

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there is a wrong way if you're going to extend to taxing sales tax on services. And of course I think we all know there's about, if we looked across the country, there's about 180 different kinds of services, Senator, that can be taxed, and various states tax some or a large part of that. In Nebraska we tax roughly about 70 of those services already. And so certainly I think it could be part of the dialogue, to what extent should sales tax on services be expanded. But as John said, and I respect him greatly, we have to do it in a smart way, and it really has to be looked at to say, what is the overall package now, if you're going to do that. So I, to some extent, haven't answered your question. But I've tried to say, that's how I would answer it, is to say that you have to look at...if you're going to reach out and look to pay for this change by expanding the tax base on additional services, I just think you have look and say which ones make sense, which ones don't, and look at it closely. And that may or may not be one that you decide to tax. [LB405]

SENATOR SCHUMACHER: Answered like a lawyer. I mean, yeah. (Laughter) [LB405]

NICK NIEMANN: Thank you. [LB405]

SENATOR SCHUMACHER: Quickly, you mentioned the alternative minimum tax. Can you give us a minute/90-second explanation of what it is, who it impacts, how much money it involves? [LB405]

NICK NIEMANN: The alternative minimum tax is a separate tax from the regular income tax. It is part of the federal tax law that has its regular income tax rates, and then it has an alternative minimum tax. And what that does...it says that because taxpayers are able to legitimately take certain deductions and have certain tax credits, let's say, that the federal government says, we want to have at least a minimum, flat, average rate the taxpayers will pay. Nebraska has done that as well, not on the corporate side but on the individual side. What they say is, in Nebraska your alternative of minimum tax will be about 29 percent of whatever your federal minimum tax is. There are only eight states that do that, and we're one of those. And it's viewed as a disadvantage by those that look and say, where should we locate. [LB405]

SENATOR SCHUMACHER: Thank you. [LB405]

SENATOR HADLEY: Senator Pirsch. [LB405]

SENATOR PIRSCH: Thanks for your testimony. And it looks like the lawyer jokes have already started (inaudible). [LB405]

NICK NIEMANN: Sorry, only one allowed. [LB405]

SENATOR PIRSCH: But you had mentioned 70 services are currently taxed in the

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current structure, and so...and then I missed the figure. How many are possible, the total universal? [LB405]

NICK NIEMANN: There's about 180. Now I'm sure there's a lot of different ways that can be broken down and counted. But there's a report, and I'd be happy to provide you that if you'd like. There's a report that was done that looks at this for every state, and it's a good resource if you do decide to look into how do we...how would we stand if we expanded our sales taxes to services, because this is a very in-depth report. It's a few years old, but it lists about 180 different services. And 70-75 or so, if you were look and say how many does Nebraska tax, that's what you'd see from that. [LB405]

SENATOR PIRSCH: Well, I appreciate that. And I don't mean to suggest or project any future actions, but I just think it's good for...I'd appreciate having that. One other follow-up question. I think that...and I can't remember who, but somebody had guesstimated that there may be \$2 (billion) or \$3 billion in potential exempted sales tax with respect to services. Does that figure seem to jibe with your understanding or... [LB405]

NICK NIEMANN: I can't tell you exactly what that would be. It doesn't surprise me that that's the number. It's a little difficult because...and I think the Tax Commissioner could give you some estimates on that. But it's not necessarily...I don't believe there is as much data that they would have on that, compared to their information on some of the other exemptions. So, to some extent, some of that estimate may need to look at other federal numbers and try to extrapolate to what Nebraska would have as far as that goes. [LB405]

SENATOR PIRSCH: And with respect to sales taxes that are imposed on services, can you give me a...just a...if there are any generalizations in terms of approaches by other states, neighboring states in particular? [LB405]

NICK NIEMANN: I don't know if there's anything general. I'd say what you see often is sometimes it may be a sales tax for a business that is also involved in some type of sale of other property, and so it's somewhat easier to also impose a sales tax on services that they might be performing. Other than that, as you...if you were to look through this survey, the states are all over the board. You go from South Dakota that taxes services to a very large extent to other states that have very limited number of services. [LB405]

SENATOR PIRSCH: Thank you. [LB405]

NICK NIEMANN: Okay. [LB405]

SENATOR HADLEY: Mr. Niemann, is it the FTA report? Is that the one you're talking about for the... [LB405]

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NICK NIEMANN: I think that is the one. [LB405]

SENATOR HADLEY: I think we have it. [LB405]

NICK NIEMANN: And I think it's about 2007, Mary Jane, if you...so you've got that already and... [LB405]

SENATOR HADLEY: Right. [LB405]

NICK NIEMANN: Okay. All right. [LB405]

SENATOR HADLEY: The only thing I'll say: I lived in South Dakota for 20 years and I happened to see a bill that they had in their legislature last year to tax the rodeo clowns fee at rodeos. (Laughter) So they have a pretty expanded taxation of services in South Dakota. [LB405]

NICK NIEMANN: It's about time they caught up with the clowns, right? Right. [LB405]

SENATOR HADLEY: They caught up with the rodeo clown. I...it blew my mind that they would have a hearing on taxing the rodeo clowns fee, but they did have that as a thing. Any other questions for Mr. Niemann? Thank you so much. [LB405]

NICK NIEMANN: Thank you. [LB405]

SENATOR HADLEY: Next in the neutral. How many other in the neutral do we have? Can I see a show of hands? We have one other. Okay. [LB405]

LARRY JOHNSON: (Exhibit 15) Good evening, Senator Hadley and the members of the Revenue Committee. My name is Larry Johnson. It's L-a-r-r-y; Johnson is J-o-h-n-s-o-n. And I'm the president of the Nebraska Trucking Association. And on behalf of the Nebraska Trucking Association, I'm submitting this neutral testimony because the line was shorter than the opposition, so...(laughter) this late hour. Kind of snuck in on them. [LB405]

SENATOR HADLEY: Nobody called him dumb. (Laughter) [LB405]

LARRY JOHNSON: Yeah. (Laughter) However, as an expression of our concern about potential consequences of LB405, the Nebraska Department of Revenue does collect income tax from nonresident trucking companies that do business in Nebraska. It's based on a minimum number of trips that they make through, and then they get a portion of the revenue they get on freight delivered or picked up here. But that revenue would disappear and not be replaced with sales taxes because these carriers generally

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make equipment and parts purchases in their own home states. Nebraska trucking companies that do business in other states will continue to pay that income tax in 22 other states that belong to this tax compact and putting our carriers at a competitive disadvantage. A shift to a Nebraska sales tax in exchange for no income tax will do nothing to alleviate a Nebraska carrier's income tax obligation to the other states. We'll simply keep on paying them. Non-Nebraska-based trucking companies would enjoy a tax savings, while a Nebraska-based company would see its net tax obligation rise substantially. The sales tax on our members' purchase of transportation equipment would be in addition to another 12 percent federal excise tax that we're currently paying on that equipment and replacement parts. That's an additional 5.5 percent to 7 percent sales tax. That will not encourage growth for these business within Nebraska. Forty-nine other U.S. states currently offer some form of exemption for transportation companies from paying sales tax on that equipment. Nebraska-based carriers with terminals in those states would likely purchase and license their equipment in a state where the sales tax exemption still exists. The result is no sales tax revenue increase for Nebraska, and an additional result may be the loss of service work for local truck and trailer dealerships who prep that new equipment for delivery here in Nebraska. There is also a high probability that our member businesses who are in truck, trailer, and parts sales will lose a percentage of their sales to dealers in border states where there are no sales taxes or where the common carrier exemption does exist. Nebraska Trucking Association members very much support efforts to make Nebraska's tax structure more competitive and business friendly. However, we do believe that it needs to be accomplished in a very careful, thought-out process. Introduction of LB405 is a somewhat provocative start to that process, but we do look forward to further study, explanation, and refinement. Have any questions? (Laugh) [LB405]

SENATOR HADLEY: Questions for Mr. Johnson? Seeing none, thank you, Mr. Johnson. [LB405]

LARRY JOHNSON: Thank you. Have a good evening. [LB405]

SENATOR HADLEY: Anyone else in the neutral? [LB405]

JASON HAYES: (Exhibit 16) Good evening, Chairman Hadley and members of the Revenue Committee. For the record, my name is Jason Hayes, spelled J-a-s-o-n H-a-y-e-s, and I represent the Nebraska State Education Association. NSEA is testifying in a neutral position on LB405 because we do believe there is a need to undertake a thorough study of Nebraska's state tax policy, and LB405, which would be a major change in that policy, has certainly highlighted that need. Although neutral on the bill, NSEA is concerned as to whether the bill in its current form will be 100 percent revenue neutral. We ask the committee to thoroughly review the overall impact of the implementation of LB405 and, while undertaking that review, also evaluate the impact it would have upon public education from pre-K through college. In addition, we are

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concerned that eliminating the state income tax may result in a decrease of up to \$81 million received by school districts from the state income tax rebate. We ask the committee to review this impact to ensure there is not a loss of funding for our schools. NSEA is focused on ensuring that every student in our state has access to a quality education. Senators, you and your legislative colleagues play a key role in that effort, and we thank you for your work and your support for public education and thank you for your time. [LB405]

SENATOR HADLEY: Mr. Hayes, I guess the only question I have...that \$81 million could be problematic because that... [LB405]

JASON HAYES: Right. [LB405]

SENATOR HADLEY: You know, if the income tax goes away... [LB405]

JASON HAYES: Um-hum. And I think that there would be ways to alleviate that problem, just so that everybody is aware of it, when they're...whatever they pass out of committee. [LB405]

SENATOR HADLEY: Thank you. [LB405]

JASON HAYES: Thank you very much. [LB405]

SENATOR HADLEY: Thank you, Mr. Hayes. Any other neutral? Any proponents that we missed the first time around? Okay, we're now back to opponents, so we will now have an opponent come forward. [LB405]

RICHARD REISER: (Exhibit 17) Good evening, Senator Hadley and members of the committee. My name is Richard Reiser. I'm an employee of Werner Enterprises, which is a transportation and logistics company located in Omaha, Nebraska. We provide transportation services in the 48 contiguous states, Canada, Mexico, and logistics services in different parts of the world. In 1976, Iowa...our company was located, prior to that time, in Council Bluffs, Iowa. And Iowa decided about that time to take a look at the sales tax exemption on revenue equipment that we use, our trucks and trailers, and as a result of that Mr. Werner moved the company to Omaha...to Sarpy County, Nebraska, where the company has grown and thrived since then. We currently have 1,400 employees in the office here in Omaha, Nebraska. All the jobs pay Nebraska income tax, and our company has paid millions in various kinds of taxes to the state since coming here. I make that point only to show you that taxes do matter and people are concerned about where...what kind of incentives are provided. Twenty-nine states have some form of exemption for interstate commerce equipment. Nebraska is included. Why is that? Well, the main reason for that is when we buy either a tractor or a trailer, that's, you know, the tractor is the part you might think of as the truck, the power unit. We pay

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a federal excise tax of 12 percent. That money goes into the Highway Trust Fund and goes back to the states from the federal government. On \$125,000 tractor, which is a number that's not out of line now, we pay \$15,000. This bill would add \$6,875 to that tax burden. Sales tax, unlike income tax, is not prorated. That means the entire sales tax imposed by Nebraska is paid in Nebraska and stays in Nebraska. We purchase tractors and trailers to use in interstate commerce. Many of the tractors and trailers we purchase never see Nebraska. They never go through here. On an average, 2 percent of the miles we run in the United States are run in Nebraska. The rest is run in other states, yet the entire sales tax would be paid here. The loss of the sales tax exemption would place our company at a competitive disadvantage with our major competitors. For example, a large competitor of ours is located in the state of Wisconsin. As you've heard discussed, the income tax is apportioned or prorated--apportioned, I guess--on the states in which it's earned. So currently we pay income tax in Nebraska. We pay income tax in Wisconsin and a number of other states. If this bill is passed, our major competitor will still not be paying sales tax in Wisconsin when they buy new equipment, but they will no longer be paying income tax to Nebraska. We'll still be paying income tax to Wisconsin, and we'll be paying that \$6,800 sales tax on the equipment. That is a competitive disadvantage. As you can see in the letter I've passed out, by the time we renew our entire fleet...and we run approximately 7,300 trucks, 700 of those are nonowned equipment, owner operators; the rest are owned by the company. By the time we work through replacing all of those, it would be about a \$44 million impact. That will take...current conditions and depending on when we buy in the buy cycle and so on, it would be about four or five years that that would be...that we'd go through those trucks and replace them. Other trucking companies engaged in interstate commerce who are our competitors have avoided this problem by taking, delivering, and registering their trucks in states where no tax is charged. Due to the fact that the state income tax is apportioned among the states based upon where the income is earned, the amount we pay in sales tax in an average year will exceed the amount we would otherwise pay in income tax by several million dollars. We calculate the average cost differential on those two taxes to be in the area of \$5 million a year. And for those reasons, we oppose LB405. Thank you. [LB405]

SENATOR HADLEY: Are there questions for Mr. Reiser? Seeing none, thank you for your... [LB405]

RICHARD REISER: Thank you. [LB405]

SENATOR HADLEY: Next opponent. [LB405]

JUSTIN SPOONER: (Exhibit 18) Good evening. My name is Justin Spooner, J-u-s-t-i-n S-p-o-o-n-e-r, and I represent the government liaison committee for the Association of Students at the University of Nebraska, the governing body for the students there. It may be better known to you all as ASUN. And before I begin I would like to just point

this out to you, Senator Janssen: Your question that you asked my fellow student, Megan, she forgot to mention to you that the \$1,000 tuition freeze will...excuse me. The money you would save only affects in-state students. So out-of-state students would still be up to maybe rate...not rate freezes but increases. But I'd like to begin by telling you all that if you see the...there's, attached to what I've given you, Government Bill 13 from the ASUN Senate. It is what our senate passed in opposition to LB405, more specifically, Section 15 of LB405, which would revise and amend, as you know, Chapter 77 of the Revised Statutes to...for the sales tax exemptions affecting the university. There are clear policy reasons why the University of Nebraska and other institutions encourage students to live in residence halls, the most important being that students who live on campus, as Megan told you all, are more likely to stay in school and complete their degree. On-campus housing is critical to student recruitment and to student success. Aside from their normal academic requirements, their residence on campus provides many different support structures not immediately available if the student resides off campus. It is a high priority for us as a university to be able to offer competitive, affordable, on-campus housing options, and a new tax on residence halls would harm our ability to do just that. A problem facing the residence halls today at UNL is that the university is currently not able to fill them all to capacity. According to an Omaha World-Herald article, the number of students living in the residence halls has dropped from 6,008 in fall of 2011 to 5,747 in the fall of 2012. UNL's residence halls currently have a capacity of about 7,000 students. This drop may be attributed to the dip in enrollment at UNL in the past year, or maybe more students are just choosing to live off campus, where the cost to live is substantially cheaper than it is to live on campus. An argument can be made that, despite the fact that the rising cost of living on campus that we have at UNL, we still remain a cheaper option than many of our peer institutions within the Big Ten. Among the 12 Big Ten institutions, UNL ranks 8th in housing costs, which is an attractive statistic for prospective students. At UNL, however, our chancellor, Harvey Perlman, has issued a goal to increase our enrollment total to 30,000 students, which means that more people are going to be looking to live on campus as they come to our campus. An additional cost of hundreds of dollars may harm their ability to do that. Although the added cost to the student would be around \$650 per year, all that money doesn't directly affect the betterment of the university. This money would go to the state in hopes of keeping our tax plan revenue neutral. What we don't understand is the reasoning behind eliminating the residence halls' tax-exempt status, which helps keep costs low and attractive to prospective students. We recognize that, in order to successfully eliminate our state's income tax, certain exemptions must be eliminated in order to offset the loss of revenue. However, we do not believe that students should incur the burden of offsetting those losses. Although many students are employed and currently pay an income tax, these jobs offer minimal work hours and provide less pay than a citizen who may have a full-time job with an annual salary. Therefore, an amount a student would save with no income tax may be less than the new tax imposed on them if they were to live on campus. All in all, I am proud to be a student at the University of Nebraska-Lincoln, which has allowed me an

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excellent opportunity to advance my academic endeavors while doing so at a fraction of the price of our Big Ten peers. The low cost is what drove me to choose to attend UNL rather than go elsewhere, and I can assume that today's prospective students also take the cost into account. We understand that the state faces difficult choices financially. We hope the Governor and the Legislature will consider other options to meet Nebraska's goal of a broad tax reform while also ensuring affordable access to all students. Thank you for this opportunity to speak, and I will answer any questions. [LB405]

SENATOR HADLEY: Any questions for Mr. Spooner? Senator Schumacher. [LB405]

SENATOR SCHUMACHER: Thank you, Senator Hadley. Just one question, a repeat of one that I asked before: Are you a senior? [LB405]

JUSTIN SPOONER: Yes. [LB405]

SENATOR SCHUMACHER: Okay. In your discussion with your peers and in selecting where you might move to,... [LB405]

JUSTIN SPOONER: No. (Laugh) [LB405]

SENATOR SCHUMACHER: It's never come up? [LB405]

JUSTIN SPOONER: It has never come up about income taxes or sales tax between me and my friends. Granted, a lot of the people that I interact with may not necessarily be aware or up to date on what exactly their tax rates will or will be or may not be if they were to move to a bigger city. But I don't think that's one of the major issues that graduating students take into account compared to where they're going to find a job that suits their needs. And, as Senator Harr stated, you know, a bigger city, a bigger urban area is attractive to younger people. There's more younger people there to interact with than we have here in Lincoln or Omaha, where we know everyone that we grew up with, as with the rural communities around the state. [LB405]

SENATOR SCHUMACHER: Thank you very much. [LB405]

SENATOR HADLEY: Mr. Spooner, I have just one quick question. You did an excellent job last year as a page. Do you remember what your salary was, per hour? [LB405]

JUSTIN SPOONER: I do. [LB405]

SENATOR HADLEY: How much was it? [LB405]

JUSTIN SPOONER: Around \$9.25 an hour. [LB405]

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SENATOR HADLEY: Nine twenty-five. I looked at my stub for the end of January as a senator. Mine was \$5.67 an hour, so I just thought the state valued pages twice as much as they value senators. (Laughter) So I thank you, Mr. Spooner. I appreciate very much... [LB405]

JUSTIN SPOONER: No problem. Thank you. [LB405]

SENATOR HADLEY: Okay, next. We've had a business. We've had a nonprofit. [LB405]

DAVE BARTELS: Agriculture? [LB405]

SENATOR HADLEY: Agriculture sounds great. [LB405]

DAVE BARTELS: (Exhibit 19) My name is Dave Bartels, D-a-v-e B-a-r-t-e-l-s. I would like to thank Senator Hadley and the Revenue Committee for the opportunity to testify against LB405. I am a 51-year-old agricultural production specialist. I use this title with no disrespect to my parents or grandparents, but the term "farmer" fails to get the respect that it did several decades ago, even though grocery store shelves today are bountifully stocked with the best meat and vegetables produced anywhere in the world. I produce corn, soybeans, wheat, and Angus beef with my brother, Steve, and my two sons, Michael and Craig, in Franklin and Webster Counties. The business of ag production has expanded its role from feeding the world to producing domestic energy. The last few years have been profitable for agriculture. This success is the reason Nebraska and its neighboring ag states largely avoided the deep recession experienced by many densely populated states relying only on manufacturing and services. Don't ever forget that agriculture is the economic engine that drives Nebraska's economy. The long-term success and sustainability of agriculture and many other established businesses is being threatened by the narrow-sighted thoughts of a think-tank group with the creation of LB405 and LB406. The magnitude of problems caused by eliminating our current personal and corporate income tax structure and replacing it with a highly variable sales tax revenue is huge. This proposed bill will have many undesirable consequences. The goal of gaining new businesses and jobs for our state will fail to offset the economic damage and job loss to agriculture and existing businesses. This proposal is not a tax shift but a substantial tax increase for everyone in agriculture. I would like to support my point of view by explaining how this proposal would affect our farming operation. At this time I have fixed, state/local-related taxes of \$80 per acre, or \$80,000 for 1,000 acres. The breakdown of this is, one, a tax of \$36 per acre for irrigated real estate. This tax has increased at a rate of 8 to 10 percent per year for the past seven years. This increase far exceeds inflation or cost-of-living increases. Second, a personal property tax of \$34 an acre. Part of this is double taxation. We currently pay irrigated real estate taxes on the land and personal property

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taxes on the equipment used to make a farm irrigated--pivots, pumps, gear heads, motors--plus taxes on any other new piece of equipment with a useful life of seven years until it's depreciated out. We also pay an occupation tax of \$10 per acre. This gives us the right to irrigate in the Lower Republican NRD. Producers in 20 of the 23 other NRDs do not pay this tax. LB405 is anything but revenue neutral. It will dramatically increase my tax liability. This spring, it will cost \$500 per acre for seed, fertilizer, and fuel for farm operations, irrigation, and drying. A sales tax at 5.5 percent would add \$27.50 per acre, or \$27,500 in new taxes for a 1,000-acre producer. This would be on top of the \$80 tax mentioned above. Added to the aforementioned taxes is the proposed sales tax on new equipment. This would be extremely painful. For example, the sales tax on a new combine, corn head, and flex platform, costing \$450,000, which is probably conservative, would total \$24,750. This single purchase would total more sales tax than the average Nebraska laborer, working 8:00 to 5:00, would pay in their whole lifetime. As an ag producer, I must have all the equipment necessary to plant, spray, irrigate, harvest, and store production. This is a substantial investment. This equipment is used extensively each year and needs to be replaced at least once every seven years at an amortized sales tax of \$13,500 annually. And the assumption of that is a \$3 million equipment inventory and a replacement value of the used equipment of 50 percent. A 1,000-acre producer currently paying \$80,000 in fixed taxes, state- and local-related taxes would pay at least \$41,000 in new sales taxes. A new total of \$121 per acre, or \$121,000 in fixed local taxes, would be paid annually before any crop is even harvested. These figures clearly show that the proposed tax change is not a tax shift but a tax increase. To illustrate this point, according to my accountant, the current 7 percent--which is 6.95--income tax rate would have to increase to 22 percent to equal the same \$41,000 of new sales tax revenue charged to a 1,000-acre producer. Farmers have no control over Mother Nature, therefore, each year brings a new challenge, whether it be weather, bugs, weeds, or drought. We have no control over our input costs. Fuel and fertilizer prices alone vary greatly from year to year. We also have no control over the price we are paid for our products. During my career I've seen prices go from anywhere from \$1.50 to \$8 for a bushel of corn. Agriculture is not like any other business. It is a constant gamble. It is not fair to tax farmers on what they need to be producers when what they actually do produce and what they are paid for those products changes so much from year to year. The timing of this new consumption tax would be catastrophic for agriculture. Prognosticators are calling for 100 million acres of corn for 2013. More normal weather will put corn prices at \$4 a bushel. Couple this with high input costs and Congress making cuts to the Farm Bill as its first move toward federal deficit reduction, and you will have agriculture on life support within five years. Trouble with agriculture affects the whole state. Every local business in Nebraska is influenced by agriculture. When we fail, so do they. For example, I am old enough to remember when there was a sales tax on farm equipment. The end result of this tax policy 30 years ago nearly broke Nebraska implement dealers. Producers went to sales tax-free states to purchase their ag equipment. Agriculture doesn't have a way to pass our costs on, and we can't relate...or we can't relocate to

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another state. How many knives can you put in something before it bleeds to death? We need to keep our current income tax structure. What could be more fair than a make-it/pay-it tax? It is my hope that the next time a state policy change of this magnitude is considered, representatives of agriculture, medical, small business, banking, and manufacturing would all be included in the discussion. I would be very interested in being involved. [LB405]

SENATOR HADLEY: Thank you, Mr. Bartels. Are there any questions? I think that was very well stated. Thank you so much. I married a young lady from Webster County, so I'm very familiar with that area down there. Next... [LB405]

SHERI ANDREWS: Business? [LB405]

SENATOR HADLEY: Business, that would be fine. (Laugh) [LB405]

SHERI ANDREWS: (Exhibit 20) We'll ask first. Good evening, Senator Hadley and members of the Revenue Committee. I'm Sheri Andrews, S-h-e-r-i A-n-d-r-e-w-s. I'm president and CEO of Lozier Corporation. You may be tired of hearing that name by now. (Laughter) We've seemed to come up several times. And I'm here on behalf of Lozier Corporation and our 1,000-plus employees. We understand how difficult what you're trying to do is. You're trying to figure out how to stay competitive and still balance the revenues and the expenses. That's something that businesses, farmers, everybody in this room does every single day, so we understand that. However, when you look at taking away the income taxes to make it competitive, you've also said, in order to do that, we've got to fund it with something else, and that something else is taking away some of the exemptions. There is one exemption in particular that hits manufacturers and others very hard, and that is the tax on inputs and components. If you look at it--and I think the Governor actually said this, was--today we compete in a worldwide economy. It's not just within the state of Nebraska. It's all the states and it's overseas. What that means for us is you look at the Nebraska sales tax, and it can be anywhere from 5.5 percent to 7 percent. You've now made Nebraska manufacturers uncompetitive to that extent. In most instances we can't pass that on to the end user, and so what you've done, they've called it pyramiding. I call it taxing twice in some instances. But you end up eating that tax because you can't pass it on. In our particular situation, when you look at the inputs that come in, the inputs are about 65 percent of our end product cost. So you're adding 7 percent, because we're in Omaha, to that. That 7 percent tax is over 100 times what our basic income tax is, and that's because only...depending on the year, you'll see 1.5 to 5 percent of our sales into the state of Nebraska. The rest goes throughout North America. So I decided to take another calculation and say, what would happen if I took all of what we produce in Nebraska, which is about 58 percent of our sales, and tax that with Nebraska rates? We'd still end up paying five times the amount in sales tax. So it's not fair, even to those folks who are in Nebraska. And add to that the pyramiding deal, our...we make store fixtures. Our retailers, when they buy from us,

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they pay a sales tax. So there is a sales tax to the end user. There's no way these guys are going to take any more added costs. If you visit retailers very often, you know everything in the store is always for sale; all on sale, I should say, not for sale. They won't take any additional costs. My competitors are in Alabama, Texas, and Indiana, and Arkansas. There's no way. And we sell to most of the big guys in North America. You're talking Walmart, you're talking Target, all of the different retailers. So we would end up eating that in our bottom line. Manufacturers are important to Nebraska. If you take a look at it, 11.8 percent of the output is from manufacturing; 9.8 percent of nonfarm payroll comes from manufacturing. I think you've got to step back for a second, though, and look overall at manufacturers and say, it's not just the tax you're looking at, but what do they do for the state beyond that. If you look at us, we're what I would call a midsize manufacturer, \$380 million in sales, 1,900 employees, 2.8 million square feet of facilities in Nebraska, Alabama, Missouri, and Pennsylvania. We manufacture and sell store fixtures. We started in Nebraska in the 1950s with 20,000 square feet and 25 employees. Today in Nebraska we have 1.3 million square feet of manufacturing facilities, we have approximately 1,100 employees, and our payroll in the state of Nebraska is over \$50 million. Again, we produce about 58 percent of our sales out of the state of Nebraska. We also believe, in any of the states we're in or the communities we're in, that we have a responsibility back to that community or state, and we have done so in the last several years. The Lozier Foundation, Lozier family, in their businesses have made many gifts and contributions. We have actually contributed over \$50 million to Nebraska organizations that provide food, shelter, housing, safety, education, and health. We think it's important to do that. Our employees are also a very big part of the United Way drive in Omaha. Our roots are in the state. We want to stay here. We want to continue to grow here. We want to make it able for our employees to grow. We want to have Nebraska to be a better place to live for all of our families. We're asking that you help us do this by leaving the sales tax exemption for inputs, ingredients, and component parts as it is currently. Do not take it away. We would ask that the committee indefinitely postpone LB405 and send a message to Nebraska manufacturing that you really do want manufacturers in the state, because right at the moment it doesn't quite feel that way. I'm open for questions. [LB405]

SENATOR HADLEY: Thank you. Questions? Senator Schumacher. [LB405]

SENATOR SCHUMACHER: Thank you, Senator Hadley. Maybe you know the answer to this, maybe not, and if not, you'll be on the hot seat less. But does your company have a pension program or something, a retirement program for your employees? [LB405]

SHERI ANDREWS: We have a defined benefit plan, which we have frozen parts to new employees. But we also have a 401(k) plan for both. [LB405]

SENATOR SCHUMACHER: And... [LB405]

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SHERI ANDREWS: And the 401(k) plan, for those who cannot be in the defined benefit plan, has an extra part to it for them. [LB405]

SENATOR SCHUMACHER: And if you know, general idea, what is, if somebody retires from you at, whatever, 60-65, what do they get out of those plans? What's their retirement income? [LB405]

SHERI ANDREWS: I can't tell you that exact amount. I can kind of tell you how it's calculated. [LB405]

SENATOR SCHUMACHER: Can you kind of? [LB405]

SHERI ANDREWS: It would be their wage at the end in the bargaining units. It would be their wage at the end based on...times the number of years of service and some other things that go into that. For a nonbargaining unit, nonbargaining person, it would be basically the last five years' wages averaged is what it is. [LB405]

SENATOR SCHUMACHER: Would that be higher or lower than \$30,000? Do you have a feel for that at all? I don't mean to pressure you on it, but... [LB405]

SHERI ANDREWS: If they've been around long enough to be in the bargaining...or in the defined benefit, it will be over that. [LB405]

SENATOR SCHUMACHER: Okay, but otherwise not. [LB405]

SHERI ANDREWS: It depends upon what they're putting in the 401(k). We're trying to match to kind of equal the defined benefit, but it hasn't been in use long enough that I can answer that. [LB405]

SENATOR SCHUMACHER: Okay, thank you. [LB405]

SENATOR HADLEY: Ms. Andrews, I just have one quick question, just so I understand it. You are basically, in states that you ship to that have a sales tax, you're adding the sales tax onto it when you ship to an end user. Is that correct? [LB405]

SHERI ANDREWS: We invoice the end user and put their sales tax on it, yes. [LB405]

SENATOR HADLEY: And then remit that... [LB405]

SHERI ANDREWS: Yes. [LB405]

SENATOR HADLEY: ...to the state that you're making the delivery in? [LB405]

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SHERI ANDREWS: Yes. [LB405]

SENATOR HADLEY: So this truly would be a pyramiding of... [LB405]

SHERI ANDREWS: Yes. [LB405]

SENATOR HADLEY: ...tax because you would pay the tax on the inputs, and the final product is also... [LB405]

SHERI ANDREWS: Right, and we would...like I said, that won't be passed on. It'll come off the bottom line. [LB405]

SENATOR HADLEY: Okay, thank you. Any questions? Thank you. [LB405]

SHERI ANDREWS: Thank you. [LB405]

SENATOR HADLEY: Okay, a nonprofit, please come up. [LB405]

SCOTT WOOTEN: (Exhibit 21) Good evening, Senators. My name is Scott Wooten, S-c-o-t-t W-o-o-t-e-n. I serve as senior vice president and chief financial officer at Alegent Creighton Health, and I want to thank you for the opportunity to share with you our concerns about LB405. I also want to thank you for your public service. After being here all day, I have a new appreciation for that, so thank you. Also, I want to thank you for your support of your local hospital. And many of you have even served on organizations to support those hospitals, and I want to thank you for that. I also want to thank you for your support of just access to healthcare for our citizens. My testimony today is on behalf of several organizations--Alegent Creighton Health, Bryan Health, Children's Hospital and Medical Center--all who are serving as our steering committee for the Friends of Nebraska Nonprofit Hospitals. Personally, I also serve on several nonprofit boards. I am the treasurer of the American Red Cross for the state of Nebraska, I'm the treasurer of the board and the foundation board of the Omaha Community Playhouse, and I'm the past chair of the board of Junior Achievement. We commend Governor Heineman for his foresight and vision and leadership to make meaningful changes to the tax structure. We're business leaders. We want everyone to be competitive, everyone in the state of Nebraska. And, that said, we believe that at the same time we need to consider the cause and effect. And we believe that the effect could be devastating in certain situations and that additional thought and careful consideration needs to be given to any transformative changes to the tax structure. Specifically in healthcare, LB405 will dramatically jeopardize the health and the state of healthcare in Nebraska. It'll create significant increases in operating costs--and I'll share some specifics with you in a moment on that--and those operating costs will create imminent unsustainable operating deficits. You see the numbers on the page, for those

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in the room. In Grand Island, at Saint Francis, there will be an additional \$5 million of operating costs; at Children's Hospital and Medical Center, \$7 million; in Kearney, at Good Samaritan Hospital, \$7.5 million; here in Lincoln, Saint Elizabeth, \$11 million; also here in Lincoln, Bryan, \$23 million. Methodist Hospital will incur an additional \$21 million in operating costs annually; Nebraska Medical Center, \$24 million. And at Alegent Creighton Health that impact will be in excess of \$43 million. Collectively, hospitals are one of Nebraska's largest economic drivers. Nationally, healthcare represents over 17 percent of the national economy, as you are aware. Our nonprofit hospitals provide essential community benefits. In the last year, those community benefits exceeded over \$843 million of unreimbursed cost or cash contributions to other community organizations. Our nonprofit hospitals also impact our state economy through the employment of over 42,000 individuals with a payroll of over \$2.3 billion in aggregate. And when you consider the trickle down or the extended economic impact of that, that employment adds by another 29,000 jobs in the state, totaling at least 71,000 jobs. Now the economic impact of the proposed LB405 will result, as we have stated, in the elimination of certain sales tax exemptions. It will also result in healthcare to offset those increased operating costs, which largely cannot be passed on to any other party. In the elimination or the reduction or the loss of jobs, my rough estimate would be anywhere from 1,500 to 3,000 positions. These are the types of jobs that, as...if I'm understanding the goals for job growth, are the types of jobs we're seeking to grow. LB405 would also accelerate an economic challenge imposed by all nonprofit hospitals in our state that was created from healthcare reform, which experts in the nation estimate that, by the year 2016, one in six hospitals across our United States of America will be closed. That's because of the increased reductions in payments for healthcare imposed by that law. Now I mentioned community benefit annually from our nonprofit hospitals exceeding \$843 million. I want to just kind of round out a picture of that for you. Over \$162 million of that is through financial assistance for those who would need it. Some people call that charity care. There was an addition to that, over \$500 million, for unreimbursed cost from Medicaid and Medicare, which is a hidden tax to business. There were over \$22 million to help with education of medical personnel; \$13 million contributed to research; and many, many, many community health programs and prevention programs that exceeded a cost of \$17 million. We know you expect us to be good businesspeople as nonprofit stewards. We want to keep each person in our community at the center of our care. Our hospitals recognize the importance of being good businesspeople. Also, we know you expect us to increase the affordability of healthcare. You...we know that we have to attract and retain a dynamic work force, which helps our economy. We also pay very competitive salaries. We also know, to fulfill our mission, we have to improve the health of our communities, and to do that we have to decrease the fragmentation of healthcare in our communities. We really encourage you to weigh heavily the unintended consequences of LB405. What I've talked to you about so far is what you might consider of an institutional challenge. But what you've heard from students and other individuals here today and Senator Schumacher, it's the consumer, it's the individual who will pay for the tax shift. And it will

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be people that will be...have a difficult time doing that even with a lower state income tax. These increases will prove devastating to our ability to care for patients, to maintain a strong work force, and offer community benefits to those most in need. Even more than that, from an institutional perspective, is the impact on the individual, the people who we are here to serve, the people of Nebraska, including our seniors. Every prescription a patient fills, each new piece of equipment they need to maintain their health, like a wheelchair or a diabetes kit, will cost more. The issue is more widespread than you might think. One in two people in our community live with a chronic illness that requires medication. We live in an aging state and an aging country. On average, those over 65 take 19 pills a day. The treatment we give patients depends on their ability to buy medication and the necessary equipment that's needed for their care. And those folks are on a tight income, and I would suggest that relief from an income tax perspective will pale in comparison to the increased cost for their care and for the services that they need. This tax, while tremendously difficult for hospitals to shoulder, will be nearly impossible for those people, young and old. This is a pivotal starting point, a conversation. We applaud the conversation and the bold vision and your commitment and dedication to sort through this and to listen to the people of Nebraska. On behalf of Alegant Creighton Health, Bryan Health, Children's Hospital and Medical Center, Friends of Nebraska Nonprofits, we stress our opposition to LB405 because of the devastating impact it would have on the health of healthcare and of our citizens in Nebraska. We ask you to vote for an indefinite postponement of LB405 because of that. Thank you again for your service and for your consideration. [LB405]

SENATOR HADLEY: Questions for Mr. Wooten? Senator Schumacher. [LB405]

SENATOR SCHUMACHER: Thank you, Senator Hadley. Just briefly, when the consumer would pay on these health-related items--prescription medicine, hospital room rent--that sales tax that they would be assessed, do you know if it is covered by Medicare, Medicaid, or private insurance? Or is that an out-of-pocket expense? [LB405]

SCOTT WOOTEN: Yeah, the costs which would be incurred in a retail setting would be out of pocket. The sales tax on a bed-tax perspective may or may not be out of pocket. If it is out of pocket, that means that individuals will divert monies that they're paying for their care to the sales tax, and it will reduce the amount of funds available, we believe, to pay their costs of their bill. It is not a pass-through to Medicare or any other payer unless that can be contractually negotiated. Last point: Medicare and Medicaid pay on a fixed payment, so there is no pass-through to Medicaid or Medicare. [LB405]

SENATOR SCHUMACHER: And that cost is then eaten by the institution or by the (inaudible)? [LB405]

SCOTT WOOTEN: That cost would be eaten by the institution and, thereby, creating the issue with job loss because you're going...one is going to have to figure out how to

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improve the cost structure of healthcare in order to be in a break-even or sustainable model. [LB405]

SENATOR SCHUMACHER: Anybody run the numbers on...I mean, people pick up a little money, because maybe, if they're over \$32,000, they won't have their income taxed or part of their Social Security taxed, how that offsets and where are the break-even points, if they have to pay sales tax on those 19 pills? Anybody run those numbers? [LB405]

SCOTT WOOTEN: No, we have not run the numbers. In many of our hospitals across the state, an individual in that situation would be getting significant help with their bill and the cost of their healthcare anyhow as part of the community benefit that I described from the Nebraska nonprofit hospitals. [LB405]

SENATOR SCHUMACHER: But there's no Santa Claus there either. Somebody's going to eat that. [LB405]

SCOTT WOOTEN: That's right. Some...and...yes. [LB405]

SENATOR SCHUMACHER: Thank you. [LB405]

SENATOR HADLEY: Senator Harr. [LB405]

SENATOR HARR: Thank you, Chairman Hadley. I want to make sure I'm clear on that. Medicaid doesn't pay sales tax? [LB405]

SCOTT WOOTEN: The way Medicaid and Medicare reimburse hospitals, it's on a fixed fee, and so that payment goes towards all of the care and the cost of that care for that individual. So if this hospital is paying the sales tax, the hospital won't be reimbursed any additional amount from Medicare or Medicaid. If the individual is paying that sales tax, it is likely, highly likely, we believe, that the individual will divert the limited resources they have for their healthcare costs to pay the sales tax, and that would reduce the payments to the providers. [LB405]

SENATOR HARR: Would it also move people possibly to Medicaid earlier, since they have to pay that sales tax and they would probably go to zero earlier? [LB405]

SCOTT WOOTEN: You know, I'm not an...I would defer to someone who is an expert on Medicaid eligibility. [LB405]

SENATOR HARR: Okay, thank you very much. [LB405]

SENATOR HADLEY: Mr. Wooten, I have just a quick question. To your knowledge, do

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any of the 50 states or the District of Columbia tax healthcare in this same manner, from a sales tax standpoint? [LB405]

SCOTT WOOTEN: Senator Hadley, I have been a healthcare...the answer to the question is no. I have personally been in the Ohio, Texas, Florida, and Nebraska states as a healthcare executive, and I have not witnessed a sales tax in the manner being proposed. [LB405]

SENATOR HADLEY: Okay, thank you. Thank you, Mr. Wooten. I think we're to an ag. [LB405]

PAUL KRUEGER: (Exhibit 22) Hi. My name is Paul Krueger. That's P-a-u-l K-r-u-e-g-e-r. And I'd like to thank the Revenue Committee for allowing me to address my concerns. I'm here today to show my concern for the sweeping changes in the way I will be taxed if LB405 moves forward. I am a farmer from Bladen and currently have one of my sons working with me in our operation and have two more sons who plan to join when they complete their educations. I do not want to be here giving my opposition testimony. I hope the fact that I am here conveys to this committee just how important I think this matter is to me and many just like me. LB405 will cost me thousands, like, a lot of money. It is a huge tax shift to businesses like mine simply by the very nature of how farming works. It takes massive amounts of inputs just to do what we do. When our efforts are completed, we hope to have made a profit, and we pay tax based on that profit. Shifting that formula away from paying on profits and taxing the inputs just isn't fair. How can you compare a professional person earning a wage to a...which I think we've called those "service people" today mostly, is kind of what I'm thinking here. But how can you compare a professional person earning a wage to a farmer whose business requires the very large amount of input expenditures? Now suppose that we both make \$60,000 at the end of the year. The service person has made it and I have made it. And for me to make that \$60,000, I've got at least \$800,000 of input costs into that. So if you do the math on that, at \$60,000 we're both going to pay the state a little over \$4,000, maybe \$4,500. And if we move to the LB405 manner, then I'm going to give the state a little over...about \$45,000, somewhere in there, and it sounds to me like they're getting off scot-free. And I do believe that answers part of your question on who has been...you know, who is going to be picking up the bill on that. But anyway, the businesses that I work with and buy from will also be hit by LB405. I've had a lot of what-if conversations with many of them. You know, what are they going to do if they get...if LB405 affects them adversely? What will they do? They all say, gosh, you know, Paul, we hate it, got no choice, we're going to pass these right on to you. And there goes why...I think you're going to hear all farmers are against this, but why we're against that is we kind of feel like we're on the bottom of the pond here. And everybody that gets this tax increase, and I...we've called that pyramid today and we've called that doubling and we've called it a lot of things; evil, I'd like to call it. And, you know, I feel like at the end I have to pick up my tax burden plus all these "pass-ons" that this thing

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has happened. When all these companies or manufacturers or sales hit all the way right up to this thing, I get stuck in the end. That's very discouraging, you know. In Governor Heineman's State of the State Address, he stated that he wanted Nebraska to be more attractive for outside businesses to come here. I hope that is not at agriculture's expense. If, indeed, all three of my sons do come back to join the family operation, I hope and pray the financial climate will treat us well into the future. LB405 seriously makes me question that, and I urge this committee not to proceed with any bill...with this bill or any similar. And, through the course of the day, I've jotted down a few things. One of the things I think we're...we've been worried about is people leaving the state. And from my perspective, I think...my testimony right there, I said that I have three sons, and all three of them want to come back here. And so I think, when you're looking at the people leaving the state, you're looking in the wrong place, you know. If Lincoln and Omaha kids are wanting to leave, I don't see that out in outstate Nebraska, you know. Now I'm worried that if something like this goes on and a tax shift hits our bottom line, then the next time, in 25 years, we're going to be saying, how can we get these ag kids to come back into this state? We've got all these city kids here now, or non-ag, but how are we going to get these ag kids to come back here? And, you know, that worries me. And, you know, I guess that's it. [LB405]

SENATOR HADLEY: Any... [LB405]

PAUL KRUEGER: I've kind of got off my track here, but...and it's getting late. I was pretty fresh at 3:00 today, but that didn't work. (Laughter) But... [LB405]

SENATOR HADLEY: Mr. Krueger, I was too. Any questions for Mr. Krueger? Thank you so much. [LB405]

PAUL KRUEGER: Yep, thank you. [LB405]

SENATOR HADLEY: I believe next we're at the business area. While we're getting that person up, I want to again tell you there is nothing wrong with coming up and saying, I agree with the previous testifiers, and especially if you have written testimony. [LB405]

ROBIN OLSON: Thank you, Senator. My name is Robin Olson. It's R-o-b-i-n O-l-s-o-n. I reside in Atkinson, Nebraska. I'm kind of a, probably, unique person here today in that I wear both hats. I am a farmer. I farm 2,500 acres in Holt County, and we also own two manufacturing businesses with my two brothers. We employ approximately 110 people. I think the ag part of it has been covered pretty well as far as the topics and how it's going to affect us. In my own operation, I estimated it to be...the tax burden on my operation to be around \$40 to \$50 an acre. You can do the math and figure out what my tax burden will go up. The other thing I want to touch a little more on is the manufacturing aspect of my operation. I also have a son who is currently a senior at UNL and wants to come back and work with me, and I hope that he does. I think the tax

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on the inputs to my product...we manufacture airport light base equipment. This is anything that's related to airport equipment, the cans that go in the ground that hold the runway lights, anything associated with hardware in an airport. All of my...95 percent of my product is shipped all over the world, and I'm having a hard time figuring out how I'm going to compete with the sales tax burden on all my inputs. And I ship products all over the world. And how am I going to pass that input cost and be competitive and stay in business? We purchased approximately \$1.5 million worth of equipment last year to upgrade our equipment at our plant. We are looking at more this year, but as of right now that's on hold until we see where this goes. In particular we were looking at buying a \$750,000 laser cutter. And if you go add sales tax on that, on my small company that's a huge hit. So those are my thoughts and concerns. I oppose LB405 and LB406 the way they are stated. I am not objected to tax discussions or reform, as they called it. We've heard lots of different topics today, whether it's reform or shift or such, and I do not oppose to paying our fair share of taxes. Personally, I feel this is more of a tax shift than a reform but certainly would be open to lots of discussions about what kind of reform would move the state forward. I somewhat question the ideology behind getting rid of state income tax, that the people are going to flood in here with jobs. In particular, if this tax goes through and we have to pay sales tax on all our components, well, what business is going to come into the state? Is it going to be a service business? It's not going to be a manufacturing business. Why would they come in here when they've got to pay sales tax on all the components and then try to go to sell it somewhere, where they're not taxed? So my question is: What businesses are going to come in here that are going to pay that job? It has to be ones that won't have to pay sales tax on components and such. So it's been a long day. Like the gentleman said before, I was pretty fresh at 3:00, but I'm sure everybody is getting tired, so. [LB405]

SENATOR HADLEY: Are there any questions? Senator Sullivan. [LB405]

SENATOR SULLIVAN: Thank you, Senator Hadley. And thank you for your comments and thank you for your businesses out in rural Nebraska. Tell me again how many people you employ. [LB405]

ROBIN OLSON: We employ approximately 110, and our town size is 1,200 people. [LB405]

SENATOR SULLIVAN: So you must draw, in terms of employees, from a fairly wide area. [LB405]

ROBIN OLSON: Yes, we do, upwards of 50 miles, yes. [LB405]

SENATOR SULLIVAN: Have you gotten any reaction from them on this proposal? [LB405]

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ROBIN OLSON: Well, no. It's happened rather fast, I guess, as far as when it's been proposed. And a lot of people in our area, of course, are concerned. My employees are concerned to what...how it will affect our operation and how we can expand. You know, this is certainly a... [LB405]

SENATOR SULLIVAN: Might I suspect that maybe they're more concerned about just the fact that they have a good job out in rural Nebraska? [LB405]

ROBIN OLSON: Correct. [LB405]

SENATOR SULLIVAN: Thank you. [LB405]

SENATOR HADLEY: Thank you. Any other questions? Thank you, Mr. Olson, appreciate it. Next, I believe, we're at... [LB405]

MARY JANE EGR EDSON: Business. [LB405]

SENATOR HADLEY: Hospital? [LB405]

MARY JANE EGR EDSON: Business. [LB405]

SENATOR HADLEY: Nonprofit? [LB405]

MARY JANE EGR EDSON: Business. [LB405]

SENATOR HADLEY: Business? [LB405]

MARY JANE EGR EDSON: Yeah, he was a farmer. [LB405]

SENATOR HADLEY: Was a farmer? Okay. [LB405]

MARY JANE EGR EDSON: Right, he was farmer and business. [LB405]

SENATOR HADLEY: Farmer and business. [LB405]

MARY JANE EGR EDSON: He was a hybrid. [LB405]

GEORGE KUBAT: (Exhibit 23) Thank you, Mr. Chairman. Members of the committee, again, thank you for your service. Certainly a long day; a lot of discussion. I'm certainly not going to be repetitive. Heard very early on about this is the start of a discussion, start of conversations about what should our tax structure be in the state of Nebraska. Unfortunately, we're here today not to have that discussion. We're here because there's legislation on the floor, legislation that's...I've been 20 years in manufacturing, 25 years

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before that as a tax partner in a national accounting firm, and this legislation is so poorly thought out, so poorly drafted. What you see here all day long is 98 percent of the people that are here are telling you what's wrong with this legislation. Nobody's telling you what's right with it. The people who proposed it, the Governor, who said he was going to stay, is gone. This legislation is just bad. It needs to be killed in this committee. Now those of us that are manufacturers, I mean, we have plants, manufacturing plants, distribution plants in four states. Omaha happens to be our home. This tax change in legislation will cost us a million dollars a year. We can shift our manufacturing. Maybe you can't move a farm. You can't move a hospital. You can't move a school. Manufacturing will leave this state. No one has said, where is the tax revenue going to be replaced when the manufacturing leaves this state? It's not a question of who is not going to come. Nobody is going to come to this state. No other state has this type of tax proposal. It's just unbelievable that it would even be proposed to have a tax on inputs where the other 49 states do not have it. And then you've got to deal with the international community, and China is always a factor. This is very poorly thought-out legislation. It will cause manufacturing to leave this state. It will cost the state money. It should be killed in this committee immediately, shouldn't leave here tonight, end of my testimony. Any questions? [LB405]

SENATOR HADLEY: Thank you. Any questions? Senator Harr. [LB405]

SENATOR HARR: Thank you. Thank you for coming down here, Mr. Kubat. I guess I have a couple questions. You say there wasn't really any talk about tax policy. Could you talk about that a little bit, about what would be good tax policy, in your opinion? [LB405]

GEORGE KUBAT: I think it's bringing together and having this conversation, looking at alternatives as you've talked about today. Bring together a commission. Bring together people who have good tax minds--Mr. Cederberg, Mr. Niemann. Bring people together who can bring other people together from all sorts...all places in this economy, all people who contribute to this state that can come up with what works for the state of Nebraska. It doesn't sound like...you know, everybody would like not to pay income tax, but it doesn't sound like anyone is going to leave the state because they have to pay income tax. I don't know of anybody who has ever told me that they didn't come to the state because they had to pay income tax. I think it's...you know, taxes are a fact of life, but we cannot start placing taxes in this state that just do not exist in any other venue. We have to deal with what we can work with. And people have talked about the stool--one leg, two legs, three legs. I think we have to look at what's the right, balanced tax structure for Nebraska. It's the happiest state in the Union. We ought to be able to figure it out. (Laughter) [LB405]

SENATOR HARR: All right, thank you. (Laughter) And you have quite a background. You were a little humble. You say 25 years as a tax accountant. You actually ran the

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Omaha office. Is that correct? [LB405]

GEORGE KUBAT: That's correct. [LB405]

SENATOR HARR: And then since then you've purchased Phillips Manufacturing. And approximately how many employees do you have in Nebraska? [LB405]

GEORGE KUBAT: In Nebraska we have about 150 employees; companywide we have about 250 employees. Half of our manufacturing is in Nebraska, 5 percent of our sales in Nebraska. We are an exporter of product out of Nebraska. We are a creator of jobs. We are a creator of revenue for Nebraska. Somebody might say, why is manufacturing favored? I can remember the Governor earlier today talking about the exemption on utilities. Many manufacturers are looked at as being valued assets by states who want to attract us in because we are, in most cases, an exporter of product out of the state and importer of people who otherwise would not be working in the state. The gentleman who just spoke about exporting 95 percent of his product, much of it going out of the United States, ours all basically stays in the United States. Maybe a little bit goes into other...North America and maybe a little bit of it gets out into export. But we...5 percent of our sales are in Nebraska; 50 percent of our production is in Nebraska. It would make us so noncompetitive with others who manufacture the same product that would not have these costs, we would start moving our manufacturing out of Nebraska immediately. We just could not absorb the additional cost. Sixty-five to seventy percent of the cost of our product is hard inputs that we have to put in; mainly coil steel, but a lot of other inputs go in with it. [LB405]

SENATOR HARR: Okay, thank you very much. I appreciate your testimony today. [LB405]

SENATOR HADLEY: Senator Schumacher. [LB405]

SENATOR SCHUMACHER: Thank you, Senator Hadley, and thank you for your testimony. It's direct and to the point. [LB405]

GEORGE KUBAT: And it's late at night, and I know... [LB405]

SENATOR SCHUMACHER: And it's late at night, and we don't want to talk too much. The...what do you see as wrong with the status quo, with what we have now? [LB405]

GEORGE KUBAT: I don't know whether it's a question of wrong. I think there is a valued statement in saying that we should have a hard look and assess what is our tax policy. There has been a lot of discussion of whether or not the sales tax should be expanded to services. If you go back to the historical definition of sales tax, that it is a tax on the final user-consumer of a product or a service. You know, we've talked a lot

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about what the pyramiding tax is that's being proposed as part of this legislation and how bad it is across whatever sector. Now manufacturing can pick up and we can move away from it so we don't have to absorb that tax, which means that Nebraska loses. It loses jobs. It loses the benefit of the rollover of the additional employment that comes out of the people who live in this state. I don't know that there's anything wrong with our tax policy, but I think it's good to sit down and assess it. But I do think, in Nebraska, you know, we...well, you know, if you believe global warming, maybe someday we'll be the desert of Arizona, and people will retire here because it will be nice, warm, comfy. Hopefully we'll continue to have rain and agriculture. But I think...in Nebraska we don't have an ocean; we don't have mountains; we don't have Disneyland. We'd need to have a three-legged stool to support our state, and we do a darn good job of it. Now does that need to be tweaked or changed? I think that's the process we should be going through, versus bringing in a type of bill that gets this type of a response going on until maybe 9:00-10:00 at night with 98 percent of the people that are in here, maybe more, in opposition. [LB405]

SENATOR SCHUMACHER: Thank you. [LB405]

SENATOR HADLEY: Thank you. Thank you, Mr. Kubat. Thank you very much. Appreciate it. Next, how about the nonprofit area? [LB405]

JON BAILEY: (Exhibit 24) Good evening, Mr. Chairman, members of the committee. My name is Jon Bailey, J-o-n B-a-i-l-e-y, and I'm the director of research and analysis at the Center for Rural Affairs. And we come before you today to oppose LB405. For various reasons, we think LB405 is harmful to rural Nebraska. And, Mr. Chairman, in the interest of your time and my two-hour drive home, I'm going to take you up on your offer and say I agree with everything everyone else has said. I'm going to deviate from my written comments. I'm assuming you all can read, and I have more details in my written comments about our concerns. I'm going to answer Senator Schumacher's questions though, before he asks them. Over the years, over the...almost 15 years, we've done surveys of high school kids across the state of Nebraska. In those 15 years, a large percentage, 80 to 90 percent, want to return to Nebraska, to their community or a community like it. Never, zero, have ever mentioned taxes in that. They mention jobs, they mention family, they mention amenities, but none have ever mentioned taxes. My son graduated college last spring. I asked him if he or his classmates consider tax systems of states where they want to go find jobs or move. He laughed. He said, no, why would we consider those kind of things? So I think...those are anecdotal and some research to back what Ms. Fry said earlier. But I think the...doing what is proposed by LB405 to draw people into the state of Nebraska, I don't think it's true. And if you look, the University of Nebraska Extension has done some research on why people have moved into the Nebraska Panhandle. It's almost exclusively because of family reasons. Some people move there for amenities or outdoor living, but it's almost exclusively family reasons. So as I say in my conclusion of my written comments, we think this is a

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discussion worth having. I think the Governor, Senator McCoy, Senator Ashford all brought up very good issues that need discussion and need study. Senator Schumacher, you have offered us LB613 as a perfect way to do this, to create a committee, have a summit, have ways to get public input, a lot of the things that Senator Harr was talking about, a process to get input from across the state on the tax system. So we're proposing that you indefinitely postpone LB405 and that all of you support Senator Schumacher's LB613 as a way to continue this debate on the state tax system. Thank you very much. [LB405]

SENATOR HADLEY: Thank you, Mr. Bailey. Any questions? Seeing none, I think we're back to ag. [LB405]

JON BAILEY: Have a good rest of the evening. [LB405]

SENATOR HADLEY: Thank you. [LB405]

STAN STOBEL: I'm not sure if I should say good evening or good night. (Laughter) Pretty late. I'll be quick. My name is Stan Stobel, S-t-o-b-e-l. My wife and I, with the help of my in-laws and other family members, our sons, operate a third-generation family farm. We've travelled over 400 miles today from western Nebraska to come here and meet before you because we are so strongly opposed to LB405. We are hoping that our youngest son, who is about to obtain his master's degree in a field that he can take and use anywhere, will take over and continue our family farming operation as a fourth-generation farmer, thus staying in Nebraska. Today he's still undecided though. He would like to stay in Nebraska and farm, but this bill is a huge disincentive for him as he weighs the profitability of farming against using his master's degree to gain a job possibly in another state. It doesn't take much for this smart, educated young man to see what the future is in the agriculture and what profits would be left in this volatile business poised to be sent to the state in a form of a new tax. Over the years, our son has seen the bad times and the good times and the bad times come again. All he knows is the good does outweigh the bad. But this regressive tax will tilt the delicate farming equation for him heavily toward walking away. This bill will even make it hard for me to want to be able to continue my farming operation. I do agree with the past few farmers that have spoken. Everything they've said I wholeheartedly agree, and that's because they're farmers. They know and they've been there and they know what it takes to survive out on the farm. So without reiterating so many things that have already been said, I'll try to point out a few things that have not. Senator McCoy, I'm curious and you don't have to answer I guess if you don't want to, but what was your reason for not staying with the farm? [LB405]

SENATOR HADLEY: Actually in our system... [LB405]

STAN STOBEL: You don't ask questions? [LB405]

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SENATOR HADLEY: You don't ask questions; we ask... [LB405]

STAN STOBEL: Well, I'll ask it and he can think about it. [LB405]

SENATOR HADLEY: He might be more than happy after the hearing to probably visit with you about that. [LB405]

STAN STOBEL: Yeah. It could be didn't like the work. I most think...most likely I think that it's income, find something else to make a better living. The point that Mr. Heineman brought out about that company in Nebraska that bought a \$6 million crane and had to pay tax on it, when I think of the amount of money that we have invested in the land and the machinery to operate a relatively small farm--I only farm 640 acres--it's pretty close to that. And I don't know how many times that man with the business to put up the windmills needs to replace that crane, \$6 million crane. But I know in farming that \$450,000 doesn't go very far with a new combine and a head and all that, and they do wear out and they need to be replaced. And to put a tax of that magnitude on that is just hard to fathom how we can continue to be in business. I know also Mr. Heineman said we need some change with this 50 years we've been in this particular system. Baseball, apple pie, and Chevrolet has been around a lot longer than this tax, current tax law now. And I just fail to see drastic changes such as LB405 would do to go that route. We sure don't want to play baseball with a basketball or put a square tire on a car. Yes, we can tweak some things, I agree. And I'm in no way wanting to take a free lunch. If you know a farmer very well, he pays for what he takes and uses. But we do need to survive. I guess other than saying I agreed with Mr....the farmers that have already spoken, I do hope that you understand the amount of money, I guess that's the biggest point I want to drive home, the amount of money that it takes to operate a farm, the inability to pass those costs on to anyone. And I guess where I can't ask you questions, I'm... [LB405]

SENATOR HADLEY: Yeah. I think we've probably...we've got the gist of your testimony, Mr. Stobel. [LB405]

STAN STOBEL: Okay. [LB405]

SENATOR HADLEY: Any questions? Thank you. We appreciate it very much. [LB405]

SENATOR HARR: Oh, no, I did. Me. [LB405]

SENATOR HADLEY: Oh, Senator Harr. [LB405]

SENATOR HARR: Yeah. Sorry. Thank you. And thank you for coming, travelling 400 miles, and for being patient and waiting until after 9:00 to testify tonight. I appreciate you coming. There was a lot of talk about our population growth. We haven't grown very

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much as a state in the last hundred years, only 100,000. You're from western Nebraska and you're a third-generation farmer. And I don't want to get into how many acres. You said you farm 640. [LB405]

STAN STOBEL: Yes. [LB405]

SENATOR HARR: But I think as an aggregate, I think you would agree, the family farm has gotten larger. Would you agree with that? [LB405]

STAN STOBEL: Yes. [LB405]

SENATOR HARR: Okay. So it takes less people to farm the same amount of land. And we can't create more land. So the reason we have this stagnation in our population is because 100 years ago, our population was mainly rural; now we made a transition to an urban setting. Would you agree with that? [LB405]

STAN STOBEL: Yes. [LB405]

SENATOR HARR: Okay. So what we have is that transition has been caused by the transfer of less people are needed to farm and the economy in greater Nebraska is still based largely on farming. And so we need less people, so they've moved to the city. The reason we haven't grown over the last 100 years isn't because of our tax policy but rather because of the mechanization of farming. Would you agree with that? [LB405]

STAN STOBEL: Yeah, yeah. [LB405]

SENATOR HARR: Okay. That's all I wanted to ask you. Thank you very much. [LB405]

STAN STOBEL: I guess along that, if I could add, looking and visiting with farmers that are around me in my neighborhood, I'm guessing 80 percent of us are my age or older and very few are younger. [LB405]

SENATOR HADLEY: You're awfully young looking as far as I'm concerned. (Laughter) [LB405]

STAN STOBEL: I thank you, sir, for that. But... [LB405]

SENATOR HADLEY: Senator Pirsch. [LB405]

SENATOR PIRSCH: I just want to ask you, what county are you from now? [LB405]

STAN STOBEL: Scotts Bluff. [LB405]

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SENATOR PIRSCH: Oh, you're from Scotts Bluff. [LB405]

STAN STOBEL: Scotts Bluff. [LB405]

SENATOR PIRSCH: So you're driving... [LB405]

SENATOR HADLEY: We do appreciate very much...driving it, yeah. [LB405]

SENATOR PIRSCH: ...you're driving back now? [LB405]

STAN STOBEL: Yeah. [LB405]

SENATOR PIRSCH: We really do appreciate your coming down here today and it makes a difference. [LB405]

STAN STOBEL: But I know if any of you, do you think of where and who is going to farm in the future? I like to present that question to you. Do you think of who is going to take over these farms? Many of farmers around me, we've talked about that and we look out and see the age of the average farmer and the willingness of younger ones to come along. And I just, I don't know if we don't keep young people in agriculture how in the world we can farm all the acres in this country by corporations. I don't see that. [LB405]

SENATOR HADLEY: Okay. Thank you, Mr. Stobel. And if you want to stop by and spend a little money in Kearney on the way home (laughter) there's absolutely no problem. [LB405]

STAN STOBEL: Thank you, Senator. Thank you, Committee. [LB405]

SENATOR HADLEY: Are we business now? Is that... [LB405]

RON DEPUE: (Exhibit 25) Senator, I'm not sure how I fit in. I'm here on behalf of the state airport, so. [LB405]

SENATOR HADLEY: You're...it's your time. [LB405]

RON DEPUE: That works. Thank you very much. [LB405]

SENATOR HADLEY: We have no problem with that whatsoever. [LB405]

RON DEPUE: My name is Ron Depue. I represent the Nebraska Association of Airport Officials. I'm here to address the proposed repeal of the sales tax exemption on aircraft fuel. We currently have three statutes that are in effect: 3-148 permits an excise tax

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upon aviation or aircraft fuel; 3-149 provides that that tax or those tax funds will be used to support the Nebraska Department of Aeronautics and other aviation purposes. And then, of course, there's...other than the excise tax, there's an exemption on sales tax in general for airport fuel. The proposal to repeal that sales tax exemption on, I should say, aircraft fuel, there's many policy arguments that can be made, but I'm just going to cut to the chase and make the legal argument. You've got handed out in front of you a copy of correspondence, an advisory opinion that was written to me in December of 2009 by assistant chief counsel of the FAA in response to an inquiry I made. At that time, there was also a pending legislative bill to repeal the sales tax exemption on aircraft fuel. And as just briefly to summarize the correspondence from Daphne Fuller, assistant chief counsel, funds received from taxation on the sale of aviation fuel are considered by the federal government as airport revenue. Federal law requires that all airport revenue must be used for airport purposes. The use of airport revenue for non-airport or non-aviation-related purposes is what's referred to by the feds as revenue diversion. Revenue diversion is prohibited by federal law. As a result, the repeal of sales tax exemption jeopardize federal funding for all airport projects throughout the state. Approximately 90 percent of airport projects are funded through FAA DOT grants; maybe 5 percent local, 5 percent state contribution just as a general rule. Between 2007 and 2011, the Nebraska Department of Aeronautics administered over \$230 million in federal grant funds. The Governor's proposal provides an estimate that there will be approximately \$9 million of sales tax revenue received by the state, assuming that in 2014 those taxes are at the same level as 2013. The math doesn't add up. Bottom line, it's the golden rule, the feds make the gold...or excuse me, the feds make the rule, we want the gold. So if we don't follow their rule, we don't get funding for any airport projects throughout the state of Nebraska. So I would heartily on behalf of our association suggest to the committee that the sales tax exemption on aviation fuel should remain on the books. [LB405]

SENATOR HADLEY: Thank you, Mr. Depue. Any questions? None. Thank you. [LB405]

RON DEPUE: Thank you. [LB405]

SENATOR HADLEY: Come right in, sir. [LB405]

ANDREW GOODMAN: Thank you. [LB405]

SENATOR HADLEY: Could I just see a show of hands of how many people left we have to testify? I want everybody to look at the show of hands. Okay. So when you come up...okay. [LB405]

ANDREW GOODMAN: (Exhibit 26) All right. My name is Andrew Goodman. I am president and CEO of Iowa-Nebraska Equipment Dealers Association. I represent 450 equipment dealers, 150 of whom are in the state of Nebraska. I do have a handout

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being passed around, so I won't go into great detail on that. I'll just comment on a few things to keep this brief. First of all, when we received notice of LB405, I was on the phone with several of our dealers who called our office because they told me that they had construction plans underway and they were stopping the construction plans immediately and that they were looking for options outside of the state of Nebraska. And it wasn't just one; it was several dealers. Our great concern has to do with bordering state tax policies. And you'll see in the handout that I gave you, there is a good deal of information from Goss and Associates studies that were done in 2007 and 2011 that had to do with sales tax on farm equipment parts and the effect that has had on the exodus of equipment dealers and equipment sales from the state of Nebraska. We recognize that if we have a similar situation with a tax on farm equipment whole goods that we will lose approximately six times the amount of business that we've lost from the parts. So take the Goss numbers, multiply them times six. And it can be said, and it was said, that technically if you buy out of state you will pay the use tax. But in practicality, that's not what occurs and we know that it's not what occurs. Our dealers do report into us. They know the customers go over the border; they buy the parts elsewhere so that they don't pay the tax and they don't report it. And that's what would happen with whole goods. We have had situations because of other reasons where customers do buy whole goods outside the state, by that I mean combines, tractors, those kinds of things. The ability to do that is there. They can transport it themselves today. It's not a problem. I would like to comment on, there was a comment earlier about the construction crane and tax on that. It would be very peculiar if we had a tax on that in the state of Nebraska because I don't know of another state that has a tax on that...that does not have a tax on that. And I think we would be in a peculiar situation regarding that. So my question that I have, and I know this is not the place to ask it but I will and I would be curious to know how much the state does collect in use tax. The other thing that I would mention is that our organization provides scholarships to students. And the salaries in our industry in Nebraska range anywhere from \$35,000 a year to over \$100,000 a year in the equipment dealerships. Technicians have to be college educated. It's highly technical equipment. The wages are high. And that income goes into small-town Nebraska and we're very supportive of that. We have a shortage of people to work in dealerships. We are constantly searching to bring people into our industry. There is no shortage of jobs in the farm equipment industry in Nebraska. With that, I would urge you to actually kill LB405. We would not like to see this bill continue. And I would certainly take any questions you might have. [LB405]

SENATOR HADLEY: Are there any questions? Seeing none, thank you, sir. I appreciate it. [LB405]

ANDREW GOODMAN: Thank you. [LB405]

SENATOR HADLEY: Next. [LB405]

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ABE OOMMEN: (Exhibits 27 and 28) Good evening, Senator Hadley and the other members of committee. I know it's getting late, and typically by 9:00 I'm fast asleep, so I hope I can make sense of what I am saying. (Laughter) My name is Abraham Oommen, A-b-r-a-h-a-m O-o-m-m-e-n. I'm here today to oppose LB405. And, first of all, I want to thank the Legislature and the Governor for signing into law last year what is now generally referred to as the biochip bill which provided use tax exemptions on biochips. Your support ensured the continued growth of a homegrown biotechnology company and allowed us to compete in an ever-changing marketplace. We started in 1998 here in Lincoln with one part-time employee and we were acquired in 2010 by a machine-based company called Neogen. At that time--that's in 2010--we were about 32 employees. Today, we are about 60 people of which 8 have Ph.D.'s, 2 with D.V.M.'s, and the rest with at least a bachelor's degree. And the average age of our group I believe is somewhere between 26 or 27. So we are at present a big part of the young, skilled, and trained people of Nebraska, particularly in the biological science. Greater than 50 percent of our revenue comes from outside the United States, and greater than 98 percent of it is from outside Nebraska. Interestingly, all of our future plans depend on biochips. They've already invested significantly in this area and hope to continue investing more to grow this business. And I should add, it's not in the statement there that we pay tax on just about everything; the only exception we got were the chips we use. Unlike most other industries, biotechnology and other high-tech industries, like computers for example, change and evolve every six months to a year. Companies that are able to keep pace with changes and demands from the market are able to survive and grow. And one of the challenges we face is that when technology changes rapidly in such a short term, customers expect to pay less for the same product or service. This is true in our business and also true in the computer industry. And I refer to the computer industry because most of you are familiar with this industry. So, for us, every six months to a year sees our margins going down and also our revenue goes down as prices goes down. This is true for any product we launch. And in a state like Nebraska where there is very little unemployment, labor costs keeps going up every year. So this eats further into our operating profits and long-term sustainability. So to grow and increase our revenue, we're always launching new products on a regular basis, and sadly for us most if not all of our new products are biochip based. To stay competitive in such a scenario, you have to have support, and that came to us last year thanks to the Governor and the Legislature of Nebraska. When that support goes away, the only option left for us is shift the business to a different location. Shifting of industries and of business is nothing new. This happened in the computer industry in the early '80s when manufacturing moved to lower-cost areas in Asia where material and labor were cheap. Companies shift to locations where tax incentives exist and where labor and/or material costs are low; otherwise the competition that gets any or all of these benefits will definitely wipe the rest of the players out. In our case, this is true with Pfizer that competes with us from a supportive state like Michigan, which is also where our corporate headquarters are, and our other competition from Canada, a German company with huge support from Germany and also from Canada. So I believe that a

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plan before us would not only stop the current expansions we had already embarked on, but it also threatens the existing operation here as well as cause us to lose our own future real opportunities. As you know, business is global, and we heard that a lot here today. It's very competitive, and if Nebraska wants to grow the biotech industry, the exemptions we currently have in place plus more new supportive legislation are critical to its future viability. It sends a strong message to the biotech industry that Nebraska will support it and encourages it. Anything contrary will send the message that biotechnology is not welcome in Nebraska. I'm sure none of us want to send this message, particularly when the state is investing heavily in things like the Innovation Park which is very life-science centered. Not only will this proposal cost us more and force us to rethink our presence in Nebraska. It will also impact the ag community significantly in terms of higher costs; and you heard significant supportive testimony to that effect. The incentives including tax exemptions have been very important in terms of growing Nebraska's economy and bringing more taxpayers to the state. I believe that this model has worked very well for Nebraska, and our ranking as a top state clearly demonstrates that. I salute the Governor and our current Legislature and also our past Legislatures for enabling our state to be the envy of others. I encourage you to oppose LB405 and to send a strong message not only to Nebraska companies and the thousands of employees that contribute to Nebraska but also to the many expansion plans that are currently planned and that can go somewhere else if this proposal lingers. Thanks for your time and what you do for Nebraska. I admire the work you do for the state, and I realize it's not easy. We're all here at this late time as well, so. I'm open to questions. [LB405]

SENATOR HADLEY: Questions for Dr. Oommen? [LB405]

SENATOR HANSEN: Yes. Abraham, it's good to see you again. Do you collect and remit to the state any sales tax at the time of sales? [LB405]

ABE OOMMEN: No, we do not. [LB405]

SENATOR HANSEN: Okay. Thank you. [LB405]

SENATOR HADLEY: Any other questions? Thank you, Dr. Oommen. [LB405]

ABE OOMMEN: Thank you. [LB405]

SENATOR HADLEY: Next. [LB405]

DAVE McCracken: (Exhibits 29 and 30) Chairman Hadley, members of the Revenue Committee, my name is Dave McCracken, M-c-C-r-a-c-k-e-n. I'm currently the vice president of the Nebraska Cattlemen. Our testimony today, and I'm also carrying testimony for Nebraska State Dairy Association and you will receive a copy of that,

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we're opposed to LB405. Last week, our board of directors had a meeting. We decided to testify against it because we thought it was very important. To do this, we thought we needed some factual data. An e-mail survey was sent to the entire Nebraska Cattlemen membership. This includes ranchers, farmer stockmen, seed stock producers, and feedlots. The survey consisted of nine questions over the last three years, 2009, 2010, and 2011. The sheet I passed around is a summary of that, and I won't go into it now because of time. But you have the survey and it reflects what our members told us. Nebraska Cattlemen has policy supporting tax reform and we appreciate this opportunity to look at it. Our members consistently tell us that the biggest concern of theirs currently is property tax. Nebraska Cattlemen agrees with the Governor that locally affected officials establish the levies for these taxes. So in order to create tax reform, the people of the state of Nebraska, along with the Governor's Office and the Legislature, can be instrumental in creating tax restructuring. Nebraska Cattlemen believes all options should be fairly examined for true tax reform. In the discussions regarding LB405 and LB406, we sincerely appreciate the Governor and Senator McCoy. Showing up at our meeting with a bow tie is pretty brave, sir. (Laughter) We appreciate bringing this forward. We need to be respectful of all these people that are speaking here tonight and what their problems are with this bill. So we respectfully request that you end LB405 here, and I'd be glad to answer any questions if I can. [LB405]

SENATOR HADLEY: Any questions for Mr. McCracken? [LB405]

DAVE McCracken: Thank you. [LB405]

SENATOR HADLEY: Thank you. Thank you, Mr. McCracken. [LB405]

JEFF LAKE: Good evening, Senators. My name is Jeff Lake, chief operating officer for Duncan Aviation here in Lincoln, Nebraska. And we're a little bit unique. We have kind of a... [LB405]

SENATOR HADLEY: Would you spell your last name, sir? [LB405]

JEFF LAKE: Lake, L-a-k-e. [LB405]

SENATOR HADLEY: Okay. [LB405]

JEFF LAKE: We're a little bit unique because we have an exemption that's very specific to our business here. We have an exemption that deals with flyaway rules. So basically aircraft fly into Lincoln; we do the work on it; and they fly away and there's no sales tax on any of those services. The reason is, is because 95 percent of the business that we work on in Lincoln really comes from outside the state. The part that does come from Nebraska, the few aircraft that are in Nebraska, we do charge sales tax. So read a little

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bit of my statement here. But as I mentioned, 95 percent of the business comes from outside the state. Duncan has roughly 2,000 employees; about 1,200 team members here in Nebraska reside. We have aircraft service centers also in Michigan and in Utah. And, you know, when we look at expanding those services elsewhere, that's a real consideration for us. Utah and Michigan have the same exemption that we have here, as do all of our competitors in the United States. They have the same flyaway rule in the United States that we do here. So, you know, somebody that's coming from Europe or Brazil or somewhere else in the United States, they can fly to Wichita, Kansas, just as easily as they fly to Lincoln. So for us, that sales tax exemption is important because, as customers look at their total cost, that's a key piece. In fact, all of our new customers that come to Nebraska, that's the first question they ask: Is there a sales tax in Nebraska? Recently, Duncan has built an \$11 million paint facility here in Lincoln, and we're in the process of adding a \$25 million large maintenance facility and adding 150 to 200 employees. We really feel like if the exemption is eliminated, that's going to impact our business greatly and we wouldn't be able to add those employees. It's kind of tough now for us to unwind the kind of investment we've done here in Lincoln. In the last ten years since 2010, we've put in about \$80 million into our Lincoln facility. And as we are looking at expanding, you know, we chose Lincoln over Provo. We just added Provo in 2009, and when we were looking at adding facilities, you know, we looked at should be build in Provo or should we build in Lincoln. We felt like we had a good business climate here. And as I mentioned, we have the same sales tax exemption there in Utah. If that were to go away, you know, we probably would have done something different, quite honestly. We understand that eliminating the income tax, corporations is going to attract people here. But as mentioned earlier, we really feel like that three-legged stool is important. To put everything into the sales tax and not have anything on the income taxes, I think, really puts the business at risk. So one other thing that was mentioned earlier is the product that is shipped outside of this state. That is also something that is very important to us. A lot of work is sent to us in the way of component parts. We work on it here and then we send it back to there. And if we have nexus in those states, we charge sales tax, you know, in those states. But to add a Nebraska tax, you know, we would not be able to be competitive because, again, our competitors do not have that. So end of my statement, so if there's any questions. [LB405]

SENATOR HADLEY: Any questions for Mr. Lake? Thank you. Oh, yes. Senator Schumacher. [LB405]

SENATOR SCHUMACHER: (Laughter) Why would anybody, if you owned a Nebraska aircraft, have it serviced in Nebraska when you could just go someplace else and get it done if that's what happens? [LB405]

JEFF LAKE: Sure. Yeah. Well, as we mentioned earlier, they have to pay use tax. If they were to go somewhere else, they have to still come back and pay use tax because if the aircraft is based and registered in Nebraska, even if you go somewhere else and

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don't pay sales tax, since it's based here they're obligated to pay use tax. So no matter what, if it's a Nebraska, you know, aircraft, they're going to pay Nebraska sales tax. So if they do work in Lincoln, we're going to charge them sales tax; if they go somewhere else, they're going to pay use tax. That's not the same though for a lot of states that have an exemption for aircraft. And so, again, the Nebraska companies are going to pay sales tax one way or another. The companies in Europe, a number of other states here, they don't pay that sales tax. [LB405]

SENATOR SCHUMACHER: What if they don't fess up? [LB405]

JEFF LAKE: What if they don't fess up? Well, we have faith in our fellow citizens. Most the business aircraft that we work on are large business jets, and so most of those operations are going to be probably audited by the state, as we are consistently. So I'm guessing that they're paying that sales tax. [LB405]

SENATOR SCHUMACHER: Thank you. [LB405]

SENATOR HADLEY: Thank you, Mr. Lake. [LB405]

JEFF LAKE: You bet. [LB405]

SENATOR HADLEY: Next. [LB405]

JIM CUNNINGHAM: (Exhibit 31) Senator Hadley and members of the committee, good evening. My name is Jim Cunningham, C-u-n-n-i-n-g-h-a-m. I'm the executive director of the Nebraska Catholic Conference which represents the mutual interests and concerns of the Catholic Archdiocese of Omaha, the Diocese of Lincoln, and the Diocese of Grand Island under the direction of the diocesan bishops. The three diocese encompass the state and include 355 parishes, 91 elementary schools, and 27 high schools. The Nebraska Catholic Conference is opposed to LB405. I'm not going to read my entire testimony. I've submitted it to you. In general, we oppose LB405 because it shatters a public trust that has existed since 1967 from the day that the Nebraska Revenue Act was first enacted. Pursuant to this trust, in exchange for all of the many ways that nonprofit religious organizations and nongovernmental schools, which are nonbusinesses, serve the common good, provide public and community-based benefits, meet spiritual and human needs, and relieve obligations that would otherwise fall to government, these entities are provided with freedom from the financial and administrative burdens of the sales tax. This was sound public policy in 1967 and it remains so today. There is no sound or compelling reason to repeal these traditional exemptions which are so well-grounded in serving human needs and the common good. Our concerns are focused on page 30 of the bill. It would repeal (1)(a) of Section 77-2704.12. That would terminate a policy that for four and a half decades has allowed nonprofit religious organizations, including local churches of all sizes and

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denominations, to make purchases without the added cost of sales tax. Tax-free purchasing is a vitally important and valuable opportunity of these entities which are most often comprised of individual Nebraskans and families who voluntarily associate themselves for worthwhile purposes, purposes that are spiritual, charitable, personal, and social, touching life and death, supporting relationships, and enhancing daily living, purposes that provide unique benefits to countless people. Churches are not merely places of worship; they are community anchors and social fabric. And I have included in my testimony an example of one parish and what it would face if LB405 became law. Secondly, the bill also would repeal (1)(c) of Section 27...77-2704.12. That would eliminate a policy that for four and a half decades has allowed nonprofit, privately-operated elementary and secondary schools, including parochial and denominational schools, which meet and exceed state regulations and employ state certificated teachers to make purchases without the added cost of sales tax. Again, tax-free purchasing is vitally important and a valuable opportunity for these schools, helping them to...and to enable them to perform their educational and social and spiritual developmental functions responsibly and more fully. In addition, there is a violation of basic fairness at play on this matter. Public elementary and secondary schools, that is those organized under school districts, are also currently exempt from paying sales tax on their purchases. That policy would not be changed by LB405. Sales tax exemptions would continue for public schools. But the legislation would make privately-operated schools pay sales tax on purchases made to carry out the same essential function--quality education and social development of young Nebraskans. Making private education more expensive is not sound public policy...is not a sound public policy choice for the state to make. My testimony also includes an example of the impact of the sales tax on a nonpublic high school, Roncalli High School in Omaha. Finally, I just want to mention quickly, there is another provision that is of some concern to us. That's on page 19. It would repeal the longstanding part of Section 77-2701.24 that allows sales occurring during one activity a year conducted by a religious organization to be treated as an occasional sale which is excluded from the definition of retail sale for purposes of taxation. Church bazaars and festivals are as old as the state of Nebraska. They're important for purposes of both fund-raising and social interaction, and when they occasionally take place, they should be allowed to occur in a way that all proceeds go for the churches and religious purposes. Moreover, when they are occasional, the imposition of governmental processes imposes on them duties and responsibilities of retailers should be avoided as a matter of practicality. Thank you for your attention, patience, and consideration. We ask that you indefinitely postpone LB405. [LB405]

SENATOR HADLEY: Are there questions for Mr. Cunningham? Seeing none, thank you, sir. [LB405]

JIM CUNNINGHAM: Thank you, Senator. [LB405]

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JULIE KAMINSKI: (Exhibits 32 and 33) My name is Julie Kaminski, K-a-m-i-n-s-k-i. And I'll summarize since you have a written one. We represent LeadingAge Nebraska, which is the nonprofit nursing homes, assisted livings throughout Nebraska. And I think everybody that's gone before me has shared the benefit that nonprofits bring to the community and the cost of the sales tax exemption. Our benefit that we bring to the community far outweighs that. For our specific population, we serve a large majority of the frail seniors that are on Medicaid. So, Senator Harr, to your question that you asked earlier, with LB405 there's also charging sales tax. We do believe that it's going to push people onto Medicaid quicker because you're going to have a cost that will...they'll spend down quicker and they will go onto Medicaid. So right now our members subsidize \$18.63 a day per resident on Medicaid from what their cost is compared to what they're reimbursed from Medicaid. So to pull their exemption, for so long our members have done more for less, and this would force them to do less with less and cut services for our Nebraska seniors. We calculated what the impact would be--and I submitted the written testimony--for Tabitha located here in Lincoln. They serve in 28 counties in Nebraska and their impact, just for Tabitha alone, is close to a million dollars. For all of our members together, it's about \$2.5 million. So we oppose LB405 and just ask you that our members focus on a mission. They're not there to turn a profit. They reinvest into the rural communities, and they serve the Medicaid population that a lot of people don't want to serve and are already doing it at a loss. So to pull their sales tax exemption would make it even worse. [LB405]

SENATOR HADLEY: Thank you, Ms. Kaminski. Any questions? Thank you for staying with us so late. Thank you. [LB405]

JULIE KAMINSKI: You bet. Thank you. [LB405]

SENATOR HADLEY: Next. [LB405]

PHIL TEGGART: (Exhibits 34 and 35) Good evening, Senator Hadley. My name is Phil Teggart, P-h-i-l T-e-g-g-a-r-t. I'm the president of...president and owner of Omaha Steel Castings Company, and I've had about eight hours to modify my presentation. (Laughter) So what you've got now has changed a lot. I'm going to hope to bring some very short perspectives that I haven't heard yet today. The one and most importantly is the graph that have I provided. Throughout the day, I keep hearing about those nine states that have eliminated income tax and how great they're doing. Well, I'm here to tell you that Nebraska has lower unemployment than all nine of them. Four of those nine states are in the bottom third of the highest unemployment in the United States. I've also heard the comment about the brain drain. Okay. Going into Google, I think as Senator Harr indicated, is a great tool. The top eight brain-drain states in the United States are not Nebraska, and two of those of the highest were the two states that have eliminated income tax. So that, you know, I thought was really interesting that, you know, we've got the second lowest unemployment in the United States. Omaha Steel Castings Company

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has been in business for 107 years now. Every 107 years we decide we need to move, one way or another. So a lot of the discussion I've heard today is talking about if this goes through, if we don't have a level playing field, whether it's manufacturing, agriculture, you know, nonprofit, if we don't have a level playing field, we have no choice but to move. Well, I'm here to tell you that I did. It's not a matter of if. I did. We were in Omaha for 106 years. We negotiated with the city of Omaha for three years. We had to have at least a somewhat level playing field. Wahoo offered that to us. Today I'm happy to announce that we are three months from starting production in our Wahoo facility. It's a \$15 million facility. For a community of 4,900 people, an independent study indicated that it's a \$32 million economic impact annually. That money would have been gone from the state of Nebraska if we didn't have a level playing field. Council Bluffs or the, you know, across the river was 10 minutes from Omaha Steel; Wahoo was 30. We chose Wahoo because of the community, the people, and a level playing field. Again, you know, there was a lot of things I indicated but that's all been repeated many times as far as the negative impact is four and a half to five times. The negative impact by the elimination of the exemptions versus the, you know, the elimination of income tax. Nobody that I know of likes to pay taxes, other than maybe my neighbor Mr. Buffett. Now he might be an exception. But nobody likes to pay taxes, but as a private business, as a small business, I'd rather make money so I have to pay taxes. This bill, this change could make the difference between us making money and losing money. We wouldn't have to worry about paying income taxes. That completes my testimony. Again, thank you for your time. We are obviously in direct opposition of this bill, and would be willing to answer questions. [LB405]

SENATOR HADLEY: Are there questions? Senator Harr. [LB405]

SENATOR HARR: Thank you, Chairman Hadley. And thank you for coming. My question is rather simple. We heard the Governor earlier talk about why should your utilities not be taxed while others are. What would your response be to that? [LB405]

PHIL TEGGART: Why am I competing in a worldwide economy where I can't compete with the wages in China or the cost to construct equipment but I still have to compete with them? If there's an opportunity for me as a manufacturer to compete worldwide, I believe that I should have an opportunity to compete worldwide, and if I do, I make money. And if I make more money, I pay more tax. And I think that's a fair, you know, assessment of it. There are many things that I can't compete with but I still have to. [LB405]

SENATOR HARR: All right. Well, thank you, and thank you for coming. Appreciate it. [LB405]

PHIL TEGGART: Thank you. [LB405]

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SENATOR HADLEY: Thank you, sir. [LB405]

PHIL TEGGART: Thank you very much. [LB405]

SENATOR HADLEY: I guess that's it. Thank you. Next. [LB405]

CAROL ERNST: (Exhibit 36) My name is Carol Ernst, C-a-r-o-l E-r-n-s-t. I'm here today as the executive director of Eastmont Towers Retirement Community here in Lincoln testifying on our behalf as well as for Nebraska Health Care Association where I serve on the board of directors. We oppose LB405. As long-term care providers, we generally aren't too concerned about income tax because it really doesn't apply to us. However, eliminating that tax and shifting the burden to the state sales tax would have dramatic effects on our industry. Eastmont Towers is a private, not-for-profit, independent, continuing-care retirement community that's been here since 1968. Our continuum includes independent living, skilled nursing, assisted living, and hospice care. As a not-for-profit, we don't have owners; we don't have shareholders; we reinvest in our communities, we give back to the community at large, and we continue to seek to improve services. If we took the year of 2013 for my facility, it would mean...and we cut our...we no longer had our tax exemption, it would be approximately \$49,000. That may not sound like a lot of money compared to some of the other numbers you've heard, but for us it would be really, really devastating. Now there are not-for-profits across the state. They're in your districts, not-for-profit skilled-nursing facilities, not-for-profit assisted-living facilities. Many of those are operating on a shoestring, I can tell you. And something has to go. Something has to go if those kinds of numbers no longer exist for us. And I think Ms. Kaminski did a nice job of touching on the Medicaid. We already subsidize, our providers already subsidize that at a loss of over \$18 per day for our Medicaid residents. Many of our not-for-profits are in areas with very high percentages of Medicaid residents. So they have to stretch and stretch and stretch their resources. In addition, you've heard the college students say that this will impact them because they will have to pay sales tax on their room rental. Now there would be a sales tax on the room and board rental for our seniors if there were in a skilled-nursing facility, assisted-living facility. For people with meager resources to start out, that are stretching it and trying to stay off of Medicaid perhaps, that will just be one more way to deplete their resources quickly. And long-term care is expensive. Taxing healthcare by way of shifting the tax burden would not be a wise policy, and in a way, healthcare is an essential product just like food. And as you know, food is not in LB405. There are other bills referenced in the Revenue Committee that consider tax reform with a more reasonable fiscal impact; none of them are of the same magnitude for our industry as LB405. If this does not work, there's really no turning back. And we would suggest that it would be difficult to return to our current system. We appreciate the conversation. We'd like to be at the table. We know there are ways to do...to consider Medicaid reform. We think there are ways to cut costs. We think there are ways to continue to improve quality. We're happy to be at the table to do those things. But we recommend that

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LB405 be postponed indefinitely. I really appreciate your time. I'm impressed that you've all stayed awake. I'm impressed that I've stayed awake (laughter) since 1:30. And thank you very much for giving us this opportunity. Any questions? [LB405]

SENATOR HADLEY: Any questions for Ms. Ernst? [LB405]

CAROL ERNST: Thank you. [LB405]

SENATOR HADLEY: And I'm reaching about the time I normally get up, so we're (laughter) just about...next. [LB405]

JAMES GODDARD: (Exhibits 37 and 38) Good evening. My name is James Goddard, that's J-a-m-e-s G-o-d-d-a-r-d. And I am here to testify on behalf of Nebraska Appleseed. Appleseed is a nonprofit organization that fights for justice and opportunity for all Nebraskans. I will try to be brief and abbreviate my comments. I am having some written comments passed around right now. As a state, we know that an adequate revenue stream is vital to support the public systems that are the very foundation of the good life. We oppose LB405 because it would cause a regressive tax structure, putting that good life at risk. By risking the loss of a significant portion of revenue for the state, the bill could undo investments we've made that make Nebraska and our economy strong. One key investment at risk is maintaining our skilled work force. This is something the Legislature has invested in through education and training programs in recent years. But without adequate revenue, we cannot continue to invest in our work force to meet future need and we jeopardize our future economy. LB405 would also create a barrier to economic mobility as contrary to Nebraska's value of shared responsibility. Eliminating individual and corporate taxation would shift taxes to low- and middle-income working families. As you heard according to Open Sky, they estimate that families earning under \$91,000 a year, that means 80 percent of Nebraskans, would see a tax increase under this bill. Every day we hear from these folks. We hear from hardworking Nebraskans trying to move ahead, reaching for the American dream, and these are the very people and families that drive our state's economy. We need our public policy, and especially our tax policy, to strengthen these working families. LB405 would mean families' earnings won't go as far, they will likely spend less in the economy, and will face barriers to their efforts to succeed and contribute to our state. Although LB405 is not the right policy for Nebraska, we do see a need to review our current tax structure. Such a review should occur prior to a major change. It should be based on ensuring our revenue stream can support systems and structures that make our communities, our state, and economies strong, and it should ensure that the system for raising adequate revenue is balanced, asking all to share in the load. We, therefore, support the commission proposed in LB603. And with that, I will conclude. [LB405]

SENATOR HADLEY: Any questions for Mr. Goddard? Thank you. [LB405]

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JAMES GODDARD: I am also handing in testimony on behalf of Community Action Nebraska. [LB405]

SENATOR HADLEY: We will certainly accept any testimony from any other groups. Next. [LB405]

BRUCE RIEKER: (Exhibits 39-43) My name is Bruce Rieker, that's B-r-u-c-e R-i-e-k-e-r, vice president of advocacy for the Nebraska Hospital Association, appearing on behalf of the 89 hospitals we represent and the 43,000 employees. We're opposed to LB405 and urge the committee to kill this proposal. If the Legislature is compelled to move forward with a study, and we're all for economic development, we would encourage the Revenue Committee to advance LB613 as introduced by Senator Schumacher because it is consistent with the approach that we think is appropriate for looking at such large issues that impact so much of the state. To conduct a shift, a dynamic shift, as large as this from a stable, balanced tax system of income, sales, and property taxes to one that heavily relies on sales tax should be approached cautiously and thoughtfully considered. The NHA contends that this path is the wrong direction and also strongly contends that it is better to get it right than to get it fast. Once a state's income tax is eliminated, it will be impossible to reinstate. Should another economic recession affect Nebraska, balancing the state budget, as required by the Nebraska Constitution, would force an increase in state sales tax rate, cutting essential state programs, or both. Elimination of the state income tax may improve Nebraska's Tax Foundation business tax climate ranking, however, it would surely make us less competitive in other areas. Eliminating tax exemptions on ag inputs, manufacturing inputs, and hospitals would likely decrease the state's national rankings for being business friendly. We support economic development and realize that we're part of a much larger economy. But economic development or a move such as this at the expense of existing businesses, which you have heard from repeated testifiers, is the wrong approach. As you approach this, on page 2 of our testimony, we have made several recommendations as to how we would suggest that you approach this considering: the evidence, not anecdotes; value balance; do no harm; be cognizant of the national and global factors that may impact Nebraska. Just as many of the previous testifiers have talked about the global impacts, there are national and global impacts that also affect our hospitals that I'll allude to here shortly. I know there's been a lot of question about who pays for this, and sometimes I feel like I'm deja vu, reliving the entire debate about healthcare reform. Healthcare reform was going to solve everything from a national level, but nobody ever said how they were going to pay for it. Well, we as hospitals found out. We've had significant reductions, but...and I'll talk about those shortly here. But LB405 definitely needs a lot more evaluation from our part. But our initial calculations estimate that it would cost our hospitals \$411 million per year. Now to put that in the frame of reference, we're roughly a \$5 billion per year net patient revenues. So we're looking at somewhere in the neighborhood of 8 percent of our net revenues would be eaten up in the sales taxes that we as hospitals would be obligated to pay, let alone those taxes that we supposedly

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would be able to...or are supposed to collect from our patients. And we've already heard testimony from Scott Wooten from Alegent Creighton Health talk about the fact that, unless there's a huge shift in Medicaid policy or Medicare policy or even that of the commercial insurers, I highly doubt any of those are going to include in their payments to us the sales tax associated with the room fees that we would have to charge. Consequently, we would end up eating that. Some calculations that we were able to do relatively quickly: On top of the \$411 million, if we're not able to collect those sales taxes and we are obligated to eat those or absorb those, it would account for another \$60 million in state sales taxes and \$16 million in local taxes that we would be obligated to eat, which would be another 1 percent of our net patient revenues. Scott Wooten also talked about how this would impact jobs; \$2.2 billion of what we do is...or okay, we have net patient revenues of nearly \$5 billion and we have payroll of \$2.2 billion. I'm not saying that all of these cuts, these costs would have to come out of payroll. But he estimated somewhere in the neighborhood of 1,000 to 1,500 hospital employees would lose their jobs. I'm here to tell you that it would be more than that. If we're looking at cutting \$480 million out of our hospital revenues, that's a 9 percent reduction in our disposable...I should say our revenues that we could use to pay for either new equipment, providing community benefits, as Scott Wooten so eloquently talked about. Another component that I think is unique to hospitals that I want to make sure that we draw to your attention is, yes, that nonprofit hospitals are given special tax treatment. Like all not-for-profit organizations, hospitals are exempted by state and federal law from most organizational taxes, including sales, income, and local property taxes. However, nonprofit hospitals are required to fulfill a unique role to receive this preference. That role has essentially three parts: to reinvest in the assets of the organization; to invest the resources to educate and train healthcare professionals; and to provide care to the poor without regard for the ability to pay. That is huge. The federal government mandates that we have to provide care to everyone, regardless of their ability to pay. And when Mr. Wooten was talking about our community benefits, when you add bad debt into that, we are above \$1.1 billion that we have to absorb or find other payers to take care of that because we already incur a negative 13 percent margin below cost, not charges but from costs. We have a negative 13 percent from Medicare. We have a negative 26 percent margin on...excuse me, negative 13 percent on Medicare, negative 26 percent on Medicaid. Now that's as of today. With the cuts that are imposed by healthcare reform, which are on the fourth page, those existing cuts, in case you wonder who's paying for healthcare reform, we're the backstop of that. Between the existing cuts that have been imposed because of healthcare reform...which we did not support. I know there are people that say that the Nebraska Hospital Association was part of that. That is a fallacy. We did not support it. We are on record with letters to the Governor and others about how we thought it could be improved. Nonetheless, the deal was cut in Washington that hospitals would take \$155 billion hit over ten years. Nebraska's share of that was \$856 million, plus the other cuts that are coming that are already in place. The sequestration cuts are \$275 million; existing regulatory cuts, \$114 million. Over the next ten years, our hospitals will incur \$1.25

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billion in reduced Medicare which equates to a 9 percent reduction in Medicare reimbursements. And for those who think that we have it in our margins to absorb that, I'm here to tell you we don't. The additional Medicare cuts under consideration on Capitol Hill right now that they're trying to decide by the end of this month are another \$672 million over that same period of time, which would be another 5 percent reduction. So the stakes are high for us. If something like this, this is...LB405 is not a job creator; it's a job killer. It would impose such high taxes on healthcare, an area where we're already trying to control the cost. And I want to make one other point here. It's like when we're talking about taxing food in a hospital or taxing room fees, things like that, it's my understanding in doing a lot of research that most of the consumption taxes out there that were created were based upon an elective choice of the consumer. Well, I got news for you. Most of the people who visit our hospital didn't make that decision in the morning and says, guess what, I'm going to have a bypass and have lunch at the hospital. So, you know, for those instances, I mean, it's beyond their control when they have a traumatic emergency or chronic event where they need the care. It's not a choice. And here we're going to impose sales tax on those individuals for their room fees? And if we have to eat it, we're going to have to find somebody else to help us pay for it or reduce staff or eliminate services. Any questions? [LB405]

SENATOR HADLEY: Mr. Rieker, I have just one quick question. Is it true that if you go into a...that I'm visiting a relative who's in the hospital and I happen to go down and get a cup of coffee at the cafeteria, I do not pay sales tax on that? [LB405]

BRUCE RIEKER: That's true. [LB405]

SENATOR HADLEY: Is there a policy reason why that is such? [LB405]

BRUCE RIEKER: Well, the main policy behind not taxing healthcare and the elements associated with it is because a part of what eventually became mandated in EMTALA, the Emergency Medical Treatment, Active Labor Act, that says nonprofit hospitals have a responsibility to treat all those who cannot pay for their care themselves. And what turns around then is that, as you look at the community benefits that Mr. Wooten outlined or that I've outlined as well, it's about \$1.1 billion. The exchange for that nonprofit status and for the things that are transacted within the hospital, that tax-exempt status is granted to us by the fact that we provide those community benefits. And those community benefits aren't the result of, wow, hospitals charge so much that they can afford to give \$1.1 billion away. That's not the case at all. It's like we have to find payers for that. But it's been a longstanding policy both at the federal and the state level that when...at first it was voluntary that hospitals were non...that would take those that could not pay for their own care. Then we got into a point in time where there were some hospitals that were redirecting patients to other hospitals, and so they imposed or enacted EMTALA. But we have a strict requirement of the community benefits that we have to provide, and that sales tax-exempt cup of coffee in the hospital is part of it.

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[LB405]

SENATOR HADLEY: And so for employees, an employee of the hospital who decides to go down to the cafeteria and eat, they are not paying sales tax on the food. [LB405]

BRUCE RIEKER: Not right now, no. [LB405]

SENATOR HADLEY: Okay. And there's no problem with unrelated income? Because I know at a university we had a concern about that it wasn't part of our direct mission that we would end up paying taxes. But that's not a problem in hospitals. [LB405]

BRUCE RIEKER: No. [LB405]

SENATOR HADLEY: Okay. Thank you. Any other questions? Thank you. [LB405]

BRUCE RIEKER: Oh, I am also...sorry, Scott, I am also here submitting opposition on behalf of the MS Society and the Nebraska Association of Home and Community Health Agencies; the Nebraska Academy of Family Physicians, all in opposition; the Nebraska Restaurant Association--I'm saving you some time here, but they all want to be on the record--and the Nebraska Retail Federation. [LB405]

SENATOR HADLEY: Thank you, Bruce. Appreciate it. [LB405]

BRUCE RIEKER: You bet. [LB405]

SENATOR HADLEY: Next. [LB405]

SCOTT MERRITT: (Exhibit 44) Good evening, Mr. Chairman and members of the Revenue Committee. My name is Scott Merritt, S-c-o-t-t M-e-r-r-i-t-t. I serve as the executive director of Nebraska Corn Growers Association. With the late time we have here and out of respect for the other people who would like to speak, and I hope that I have a chance to go into a little more depth tomorrow under...when I address this committee. I'll just keep my comments extremely short. Nebraska Corn Growers Association opposes LB405. While we believe that there should be a comprehensive review and debate on Nebraska's tax policy, LB405 does not do that but it creates a dramatic shift in our state's tax policy that could potentially cause devastating effects to many industry, including agriculture. Just the one point I would like to make. A lot of points been brought up by the agriculture community, is production agriculture is generally a price taker. So as we tax the inputs that we put into our production, we have literally no way to pass it along as we are a price taker. With that, we would ask that the committee would kill LB405 and hope tomorrow I will have a little more time so we can talk about some of the issues in my industry. [LB405]

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SENATOR HADLEY: Thank you, Mr. Merritt. Any questions? Thank you. [LB405]

JONI COVER: (Exhibits 45 and 46) Good evening. My name is Joni Cover, it's J-o-n-i C-o-v-e-r, and I'm the executive vice president of the Nebraska Pharmacists Association. And on behalf of the Nebraska Pharmacists Association, I am offering our opposition to LB405. I appreciate that Governor Heineman and Senator McCoy are interested in examining Nebraska's tax policies in Nebraska. The pharmacists across the state have an interest in the state's tax policy as business owners, as taxpayers, and as healthcare providers providing both a vital product and service to our patients, many of whom serve the most rural communities in this state. It is our belief that the removal of sales tax exemptions for healthcare services, prescription drugs, and medical and nonmedical devices is not a sound or wise public policy for our state and for our patients. Prescription drugs and medical devices are vital to our patients, and with a tax on medication and medical devices, the cost of healthcare will go up, which could lead to less compliance and adherence to lifesaving medications. Nebraska pharmacies would have an even larger disadvantage than they do now compared to the mail order pharmacies that are located out of the state but are allowed to mail medications into, and medical equipment, into the state. For example, the Nebraska state employees' health plan, which is subsidized by Nebraska's tax dollars, currently incentivize state employees to obtain their prescription medications and their supplies, such as their diabetes supplies, from out-of-state mail order companies. Are there any sales tax dollars being collected on those out-of-state sales? In the short time that my membership has had to review the sales tax exemption proposal, questions about these new taxes have been raised and, quite honestly, I haven't been able to find out any answers. So I'm going to pose these questions, not necessarily to the committee looking for answers but we do need some answers to these questions. First of all, what is the amount of the drug price or the device price that will be taxed? Is it the amount that the patient pays, which is typically the copayment? Or is it the amount the pharmacy pays the wholesaler? Or is it the pharmacy's usual and customary price? And does any of that include the dispensing fee that the pharmacy is paid? The other question we've had is, since the insurance companies also are purchasers of the drug and the device which allows for the patients to only have to pay the copay, then are the insurers also purchasers and are they going to be required to pay sales tax on those drugs? If there's no copayment, is there no sales tax payment? And, finally, are there still Medicare and Medicaid exemptions, because I believe we're going to have to tax those particular prescriptions, drugs and devices? So those are just some questions we've had and we've not been able to find many answer to those questions. In most pharmacy contracts with pharmacy benefit managers and insurers, pharmacies are not allowed to charge the patient any amount above the copay. And so if this tax policy were to go into effect and the insurers weren't willing to change the contracts, then the pharmacies would be required to pay the sales tax, which would basically take money out of their pockets and still have to dispense the drug or the device, and it will have a severe impact on the financial business side of pharmacy. So I appreciate today the opportunity

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to appear before your committee and to share our concerns that I have heard from our membership. I appreciate the ability to have this dialogue, because we haven't been invited to participate in the dialogue. And I would like to request that any future dialogue be provided...the opportunity to be provided to our members or to myself because we would like to continue the discussion on future tax policy as it pertains to sales tax on drugs and devices in our state. Interestingly enough, there's no sales tax on veterinary drugs. Those will still be exempt, which I support. But I think it's interesting that my dog can get sales tax-exempt medications but I won't be able to, so. Anyway, that's my comments. [LB405]

SENATOR HADLEY: Questions for Ms. Cover? I guess I have more of just a quick comment. It just dawned on me that especially these items that impact individuals, when they buy these items out of state, if we enact LB405, every person that gets a prescription from out of state will be required then to fill out that line on their Nebraska income tax return and pay tax on the prescriptions that they're getting from out of state. Correct? Because that, it becomes a use tax then because Nebraska will be taxing prescriptions. [LB405]

JONI COVER: I would say, yes, that is the policy. Is that what happens? I do not know. (Laugh) I will not commit to that answer. [LB405]

SENATOR HADLEY: Well, there's always a...but we don't like to have policies where we make Nebraskans think twice when they're filling out their return. [LB405]

JONI COVER: Right. Correct. That's just a question we have. [LB405]

SENATOR HADLEY: Senator Harr. [LB405]

SENATOR HARR: Thank you. And, sorry, I don't want to ask too many questions at this late hour, but I was a little intrigued by what you were saying. So let's say I...Senator Janssen and I are on the same prescription drug. [LB405]

JONI COVER: Okay. [LB405]

SENATOR HARR: (Laughter) It's late. We'll call it Viagra. [LB405]

JONI COVER: It's late. Let's just leave it at that. Okay? [LB405]

SENATOR HARR: Yeah. [LB405]

SENATOR HADLEY: Is this in lieu of surgery? [LB405]

SENATOR HARR: Yeah, in lieu of surgery. There you go. Yeah. [LB405]

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JONI COVER: Remember, I'm not a pharmacist, so I can't get too into the details here. [LB405]

SENATOR HARR: Well, it's a little blue pill. It's great! (Laughter) So...again, he needs it. I buy mine on the open market and it's \$2 a pill. He has an insurance policy. It's \$1 a bill. Does he pay...because his insurance company has negotiated a deal, does he pay sales tax on the \$2, the open retail price, or does he pay it on the \$1? [LB405]

JONI COVER: I don't know. That's a question we don't know. [LB405]

SENATOR HARR: That's what you're trying to get at. [LB405]

JONI COVER: Yeah. We don't know what...we don't exactly what's going to be taxed. So wanted to come say this is how much it's going to impact the pharmacy business, but I don't know the answer to that. [LB405]

SENATOR HARR: Okay. [LB405]

JONI COVER: So I think it's on the amount that the customer pays, the patient pays. [LB405]

SENATOR HARR: It's amount...okay. [LB405]

JONI COVER: Am I getting a head shake? But the insurance company is also the customer, and I just haven't had any clarification from anybody about that. So it's just an interesting discussion. [LB405]

SENATOR HARR: Well, when the moment is right, we'll get an answer. (Laughter) [LB405]

SENATOR HADLEY: Thank you, Ms. Cover. Thank you. [LB405]

JONI COVER: Thank you so much for your time. I'm also submitting testimony on behalf of Bob Hallstrom from the Bankers Association and NFIB. So I will drop that off. [LB405]

SENATOR HADLEY: Your testimony just went downhill if you're doing something for Mr. Bob Hallstrom. (Laughter) [LB405]

JONI COVER: I know. Thank you. [LB405]

SENATOR HADLEY: Thank you. Next. [LB405]

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JOHN McCLURE: Good evening, Chairman Hadley. My name is John McClure, J-o-h-n M-c-C-l-u-r-e. And, again, I appreciate everybody's patience and attention tonight after such a long day. I'm with Nebraska Public Power District. I'm vice president and general counsel. I'm here today for both NPPD and the Nebraska Power Association in opposition to LB405. Our association represents all the utilities in the state, the electric utilities, that serve all the consumers. And we have a unique system, as you know, in Nebraska. I've heard the word "pyramiding." I think that's one of our concerns. The impact of this bill directly on the utility industry is on the fuel side where we would lose the fuel exemption. That would be passed on to our consumers. Our bigger concern is the competitiveness of the many energy-intensive manufacturing entities, ag processing entities, and just simpler ag operations in the state. You pass through those energy costs. Next to me and following me is Nucor Steel. They are our largest customer, very large customer. To give some context to how big they are, they use as much...they use twice as much electricity in a year at their plants up around Norfolk as the entire city of North Platte, twice as much in those facilities, huge consumption. We have a lot of very energy-intensive industries in the state. And if you look at parity with other states, I've looked at a large number of states in our region and they do not charge the users of energy, such as electricity in manufacturing, in ag processing, in agriculture, a sales tax. So it's not so much an issue is a Runza charged or a Nucor Steel; it's how are we stacking up with comparable competitors in industries in other states? And I'm afraid it would put us at a serious disadvantage. Ultimately, if we were to lose some of these folks, I mean, it's not good for the communities, it's not good for the electric system, especially if we lost a customer as large as Nucor. We'd have to take all the fixed costs that are paid for by their huge operations and spread those amongst the rest of our customers. So with that, I appreciate your time, your attention. It's too bad you don't have a mercy rule when hearings go like this. (Laughter) But I'd be happy to answer any questions if you have any. If not, thank you very much. [LB405]

SENATOR HADLEY: I was kiddingly just thinking, I know that when we're in general session we can't go beyond 11:59 because that counts as another day. But I don't know whether that works in committees or not. John, thank you so much. [LB405]

JOHN McCLURE: Thank you. [LB405]

THOMAS O'NEILL: (Exhibit 47) Senator Hadley, members of the Revenue Committee, I'm Tip O'Neill, that's T-i-p O-'-N-e-i-l-l. I had a president actually who was scheduled to come tonight but I told him about 6:30 that it probably wouldn't be a good idea because I...it's president of Concordia University, Brian Friedrich. I'm handing out his testimony. And actually I couldn't have written it better myself. It's really well-done and I hope you can read it. And I'm not going to add anything more to that except for one comment. We've been exempt from the sales tax on purchases since the sales tax was implemented in 1967, just like the churches have been and other nonprofits. And we think it would be just a little unseemly to charge us sales tax on our purchases while

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continuing to exempt our public sector colleagues and counterparts and using, you know, the money to partially fund the tuition freeze in the public sector for our public sector counterparts and, you know, not giving us the benefit of any of that. So we would prefer that you would indefinitely postpone LB405 just like the rest of the parade that has come before you late this evening. And I'd be happy to answer any questions. [LB405]

SENATOR HADLEY: Any questions for Mr. O'Neill? Thank you. [LB405]

THOMAS O'NEILL: Thank you. [LB405]

SENATOR HADLEY: We appreciate it. Next. [LB405]

DIRK PETERSEN: (Exhibit 48) I'm finally up here. Thank goodness! Good evening. My name is Dirk Petersen, that's spelled D-i-r-k, and Petersen is spelled P-e-t-e-r-s-e-n. And I'm the general manager and vice president of Nucor Steel, Norfolk, Nebraska. I thank Senator Schumacher for having a great description of how the steel process works, going all the way from scrap to finished goods, that was very good, and when everybody was awake. Thank you for that. So that way that helped me out quite a bit. Nucor Steel is the largest recycler in the United States. We're the largest steel company in the United States. We are larger than a company called U.S. Steel. We're the most diversified steel company in the country. We have a no-layoff practice. We haven't laid off anybody due to economic conditions in the history of our company. And our number one value is our teammates' safety. We want our teammates to go home every day the same way they came in each day. We are a proud supplier to Lozier. We're also a very large and proud customer of NPPD. We've been in Nebraska since 1972 at the Nucor Steel mill. My colleague over here, Doyle Hopper, will talk about Vulcraft and Nucor Cold Finish. They've been there since 1964. We have 460 teammates in our facility in Norfolk. The average wage of our teammates at the mill are really over \$75,000. I think the paper we gave you says \$70,000. That's combined between us and there. So I think we do qualify for the high-end taxpayers that Senator Ashford was talking about. We have a payroll at our mill about \$40 million annually. Combined with Vulcraft and Cold Finish in Norfolk, we have a payroll of about \$70 million. We have revenues of over \$1.1 billion in our facility in Norfolk, Nebraska, because we produce about a million tons of steel each and every year. We are the largest customer to NPPD. We buy about \$34 million to \$35 million worth of electricity each and every year, and it is a very significant cost in our input cost to make steel and to remain competitive in this country. To give you an idea of our growth and amount of things we've done right there in Norfolk in that little community we're in: 1973, we were producing about 60,000 tons of steel; now we can do about a million tons. And we put millions and millions of dollars into our facilities because we're competing very well across this country and all of North America. Since 2008, we've invested \$62 million in expansions. And right now this is probably what you want to listen to if you want to listen to anything. We've got \$85 million worth of

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investment with 30 additional jobs, some major expansion projects. About 20 percent extra capacity in our mill on the table right now, and another \$130 million expansion and expenditures coming up in the rest of 2013-2014. So I think if you add those two numbers again together, it's \$215 million. That's on hold right now because of this. I'm just telling you straight out. If this goes through, I'm going to tell corporate to spend the money somewhere else because I don't think this displays the faith and the trust we have in the state of Nebraska. I'm a raised in Nebraska, raised on a farm south of Wisner, Nebraska, farm kid. Still have interests in the farm area too. But my main function here today is Nucor Steel. And we have options. We have 60 facilities located throughout the country. It's not a threat; it's the way it is. We have to look at it...we have a responsibility to our shareholders. We have to be competitive. So we can make choices. We can move productions to other facilities. We can expand in other facilities. We could put jobs in other facilities. This bill, LB405, ingredients would cost us about \$23 million extra a year because we use a lot of scrap, like Senator Schumacher was talking about. We have to...that's why we're the largest recycler in the United States because we take all this junk cars and junk machinery and make something out of it. The energy part of it, just the taxes would be \$2 million. But when you calculate the amount of increase in rates, about 7 to 8 percent on NPPD. So you take 7 or 8 percent times \$35 million, I think you get a couple of million bucks, something like that. So it costs in just energy alone would be over \$4 million; manufacturing machinery equipment, a couple million; molds and dyes, I say only \$250,000. But you're start talking pushing at \$30 million a year. So how can we justify putting our investment in our facility in Norfolk if we're looking at those kind of things? You know, we can't take a steel mill and just pick it up and move it. We cannot do that. But we can choose where we do our expansions and we can choose where we have our product made by going to other facilities. When we look at...when Nucor looks at where we go to put our facilities at, we look at lots of things. One is, of course, the tax climate. But that's the only...not the only thing we don't...we don't look at that. We don't look at what a magazine says we're ranked 31st or 20th or 10th. We look at a lot of stuff. That's one of them. We look at the business environment in general. The energy is huge to us because that's our single biggest expense except for scrap that we use to make steel. Infrastructure: Do we have roads, do we have rail, etcetera? You know, we got to have...bring our product in. We've got to bring over a million tons of scrap in and then we ship over a million tons out, because we've got to bring it in and out. And we look for hardworking citizens. We believe Nebraska right now, and I've been told this by corporate, is really the flagship division for Nucor Corporation. Why? Because we have the greatest people. Nebraskans are the greatest people. They work hard and I believe in them. But we need the state to believe in us, to believe in other manufacturers that have worked hard, have been here 40 years, 50 years, whatever, and put their heart and soul into this whole deal. And we got to have the trust that we are here and we are in a state that's good for business. And we think Nebraska has been great for business. And this one is a huge threat. We got to compete across North America. You know, we make the steel here in Norfolk, but we compete against other suppliers that are in other locations all across the

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country and overseas. And we can't just raise our price by \$35 a ton which, you know, \$35 million on a million tons is \$35 a ton. We can't just increase our price. We have to compete, because our competitors aren't going out there and just raise their price. So it will come out of the bottom line. And if you have the pyramid effect going on, it's going to add onto itself. My colleague here, Doyle Hopper, will follow and talk a little bit more about Vulcraft and Cold Finish. But before he comes on up, I'm more than glad to take any questions. I believe you probably would have some. [LB405]

SENATOR HADLEY: Questions? Senator Harr. [LB405]

SENATOR HARR: Thank you, Chairman Hadley. And thank you, Mr. Petersen, for coming down here. Thanks for sticking around until about 10:30. [LB405]

DIRK PETERSEN: You're welcome. [LB405]

SENATOR HARR: You stated you have approximately 60 facilities throughout the United States. [LB405]

DIRK PETERSEN: Correct. [LB405]

SENATOR HARR: I'm assuming you have facilities or a facility in Tennessee. [LB405]

DIRK PETERSEN: Yes. We have a special bar...we call it a special bar quality mill because we make special steel that goes into manufacture and applications like making an axle for a John Deere tractor or something like that. [LB405]

SENATOR HARR: Okay. [LB405]

DIRK PETERSEN: We have a similar facility in Memphis, Tennessee. [LB405]

SENATOR HARR: Okay. So you have a facility in Tennessee. Tennessee does not have an income tax. [LB405]

DIRK PETERSEN: Right. [LB405]

SENATOR HARR: You have a facility in Nebraska. We won't have an income tax... [LB405]

DIRK PETERSEN: Right. [LB405]

SENATOR HARR: ...but we'll have input to manufacturing. [LB405]

DIRK PETERSEN: Right. [LB405]

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SENATOR HARR: So my question is, if not having a sales tax or income tax is so great, how come you guys haven't already picked up and moved to Tennessee? [LB405]

DIRK PETERSEN: Well, because when we...we took a look at this whole situation. They have other taxes, too, you know, like franchise tax and some of, you know, other stuff. You've got to look at everything. You can't just look at the income tax rate, you know, obviously. [LB405]

SENATOR HARR: And that's what a business does. [LB405]

DIRK PETERSEN: We have to look at the whole picture. And we analyzed this thing. When we looked at the effect of LB405, like I said, over \$30-some million, it would be \$26 million less than that in Tennessee, but there would be a franchise cost in addition. So, you know, there would probably be \$4 million or \$5 million there versus pushing \$30 million. So \$25 million, that's quite a bit of dollars for us to think about. [LB405]

SENATOR HARR: Yeah. So that...and that's what I'm getting at. There are more taxes than just... [LB405]

DIRK PETERSEN: Yeah, exactly. [LB405]

SENATOR HARR: ...merely the three that we seem to be talking about today--income, sales,... [LB405]

DIRK PETERSEN: Right, yeah. [LB405]

SENATOR HARR: ...and property tax. There are other taxes out there. And that goes into your decision making. [LB405]

DIRK PETERSEN: Yeah. And we...yeah, we look at everything. You know, when we look at putting a business somewhere or whatever, you know, we got to look at everything. [LB405]

SENATOR HARR: You don't get to be the largest by not being the best. [LB405]

DIRK PETERSEN: Yes. And we feel we're the best. [LB405]

SENATOR HARR: All right. Well, I thank you for your time again. Thanks for coming down. [LB405]

DIRK PETERSEN: Thank you. Thank you for the question. [LB405]

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SENATOR HADLEY: Other questions? [LB405]

DIRK PETERSEN: Anyone else? [LB405]

SENATOR HADLEY: Senator Janssen. [LB405]

SENATOR JANSSEN: Thank you, Chairman Hadley. And then kind of like you, one quick question. [LB405]

DIRK PETERSEN: I got all night. [LB405]

SENATOR JANSSEN: Evidentially I do too. (Laughter) You said one of your major costs was all...or scrap metal and... [LB405]

DIRK PETERSEN: Right. [LB405]

SENATOR JANSSEN: ...and pardon me a little bit for not knowing all of your business. I know the genesis of your business. Is that... [LB405]

DIRK PETERSEN: Scrap metal. We need scrap metal and alloys to put in a furnace and put electricity in there and melt it. That's how we make steel. [LB405]

SENATOR JANSSEN: So would that be in my district or just outside my district, but we got like All Metals Market. There's a lot of... [LB405]

DIRK PETERSEN: Right. [LB405]

SENATOR JANSSEN: ...scrapers and whatnot. [LB405]

DIRK PETERSEN: Yeah. [LB405]

SENATOR JANSSEN: So I was wondering what the...briefly, what the impact would be on those industries. [LB405]

DIRK PETERSEN: Yeah. We're...that, we believe...well, we...okay. Out of the over a million tons of scrap that we need to make our product, we get about 25 percent of it in the state right now. We have to buy various grades of scrap, you know, the higher grade scraps to make the higher grade steel and others. So in Nebraska, it's a lot of farm machinery and stuff like that. It isn't the highest grade, but it's still important to us because we need that too. I guess the way I look at it is if the...like Senator Schumacher was describing before, if you take the scrap or you take the old cars and the junk machinery and all that, that's an input cost to a scrap dealer. What they do is...he'd called it grinding. That's very close. It's called shredding actually. They shred it. They

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got to segregate the scrap into the various grades, and you go to a scrap yard, any of them, you'll see different piles and that means they're different grades of steel. So what they do is they shred it and then I assume that's an input cost for them that gets taxed. And then they ship it to us, either on rail or truck, and that's an input cost to us, an ingredient cost I guess the way the bill reads. And we'd have to, you know, pay the tax there. And then if we ship it to Doyle over here at one of his operations, that's an input cost to his because he's taking that material and making...he does things to the steel to improve the properties of that steel so he can sell it to his customers. So all the way along, you're getting zapped along the way. And I don't know if that answered your question. [LB405]

SENATOR JANSSEN: No, it does. I just... [LB405]

DIRK PETERSEN: Okay. [LB405]

SENATOR JANSSEN: ...I just wanted to kind of bring it back to... [LB405]

DIRK PETERSEN: Yeah. [LB405]

SENATOR JANSSEN: ...my district around Fremont and... [LB405]

DIRK PETERSEN: Yeah. [LB405]

SENATOR JANSSEN: ...see how All Metals worked with your industry. And I can ask you some other time when it's not quite this late of hour and I probably know how to get ahold of you. [LB405]

DIRK PETERSON: Anytime. [LB405]

SENATOR JANSSEN: Thank you. [LB405]

SENATOR HADLEY: Thank you, Mr. Petersen. We appreciate it. [LB405]

DIRK PETERSON: Okay. Thank you. [LB405]

SENATOR HADLEY: Next. [LB405]

DOYLE HOPPER: Well, good evening and almost morning. My name is Doyle Hopper, that's D-o-y-l-e H-o-p-p-e-r. I'm the vice present and general manager of Nucor-Vulcraft, Nucor Cold Finish, and our Nucor Detailing Center. And I'm a transplant from Arkansas, eight years here, and when I moved here eight years ago I did not look at the tax code to make our decision. Nucor-Vulcraft, we are a division of our Nucor Steel Corporation. We are the largest joist and deck supplier and manufacturer in North America. We

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supply over 100,000 tons a year of nonresidential products all across the country, products used in big boxes, retailers, such as Walmarts, Best Buys, etcetera, sporting arenas, and other nonresidential. We invested in the state of Nebraska almost 50 years ago, in 1964, and interesting enough, Nucor or Vulcraft Nebraska in Norfolk was the first greenfield site built by the Nucor Corporation. We started with less than 100 teammates at that time and we have now grown to over 360 teammates at Vulcraft. Our Nucor Cold Finish plant, which is right next door to our Vulcraft plant, is the largest producer of cold finish bars in North America. Starting out just a little over 34 years ago with 10 teammates, today we have 110 teammates. We supply automotive, ag, construction with high-quality bars. We are the largest customer of Nucor Steel Nebraska, across town. Our Nucor Detailing Center we started up back in 2005, an \$11 million expansion. It grew from 5 teammates to currently a little over 70 teammates today, with...we want to grow that to well over 100 as quickly as we can with future expansions coming up in the next five to seven years with a second location here in Nebraska. We have planned expansions, just at our plant across town, currently on the table in excess of \$15 million over the next five to seven years. These expansions certainly cannot happen with the passage of LB405, LB406, as both are detrimental to our ability to compete. Nucor adamantly opposes these two pieces of legislation as it will, again, severely impact our ability to keep existing products that we currently have and future growth in Nebraska. Simply put, it means jobs. For over 40 years, Nucor has called Nebraska home. We are very proud of our state, our ability to compete, and our industry. Our goal to be cultural and environmental stewards in our communities is demonstrated on a daily basis. We care about our team. We care about our state. We care about our counties. We care about our cities. With over \$2 billion in sales in the last few years and major investments back into our facilities and back into our teams, Nucor has always been committed to the state of Nebraska. Our past successes have been possible by the long-term strategical and progressive partnerships that we have had with the state and our local support. Your support and common-sense approach to business is what's made Nebraska and it's what has made Nucor great over the past 50 years here in the state. I ask you to please take the same approach today as you look going forward at this legislation and truly understand the negative and catastrophic impacts it will have on manufacturing. As Dirk said earlier, you know, we compete on the national and international playing field right here out of Nebraska. This legislation, if passed, will handicap our efforts to compete and will also hamstring our efforts to grow and provide sustainable employment for our hardworking Nebraskans. Future growth, as I said earlier, would certainly take place as Nucor has always grown and will continue to grow, but where we grow and how we grow has a lot to do with what we do here. We will certainly grow, but it very well may not be in the state of Nebraska. We have hired just over 100 people just at my division in the last five years. Two-thirds of those have taken place in the last few years, in one of the most horrible economic times we've seen. Imagine that and imagine what we can do going forward as we grow and as the economy bounces back. So what I ask you, as you've done in the past, we ask you to do in the future--make decisions that promote manufacturing, promote the futures of

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hardworking Nebraskans, make decisions not in haste but in due time and once we truly understand the impacts that it has on our industry. Our economy, as we all know, is fragile enough and manufacturing has been hit over and over and over. Let's not hit it with these two pieces of legislation again. Lastly, one thing I heard earlier today, it's been said we need high-paying jobs, \$50,000-, \$60,000-, \$70,000-a-year jobs and LB405 and LB406 would help that. That's what we heard earlier today. Well, we have those jobs. We have those jobs coming up in the future. We have them now. LB405 and LB406 will not help that. So as I close, just one interesting thing: Norfolk, Nebraska, has more Nucor divisions in it than any Nucor city in the nation, so we're very committed to Nebraska. We ask you to be committed to us. In manufacturing and ag, we need your support. Any questions? [LB405]

SENATOR HADLEY: Mr. Hopper, thank you. Any questions? Thank you. [LB405]

DOYLE HOPPER: Thank you. [LB405]

SENATOR HADLEY: We appreciate very much your taking the time and sticking with us today. Thank you. [LB405]

DOYLE HOPPER: Absolutely. [LB405]

SENATOR HADLEY: Next. [LB405]

CHUCK WHITNEY: (Exhibit 49) Good evening. My name is Chuck Whitney, C-h-u-c-k W-h-i-t-n-e-y. I'm the facilities manager for the Yahoo! Data Center in La Vista. I've submitted my testimony. I'm going to go ahead and paraphrase, if everybody doesn't mind here. As I said, a facilities manager for the Data Center in La Vista. Including our headquarters located in Sunnyvale, California, Yahoo! employs more than 12,000 people. We attract more than 700 million unique users worldwide, reaching approximately half the total Internet population. We truly operate on a global scale. In 2008, Yahoo! made a decision to open a data center in La Vista and a corporate office in Omaha. We're four years into our operations. Since then, our investments have surpassed \$300 million. We've created over 250 high-wage and high-skilled jobs, same type of jobs that we're talking about today, within our data center and corporate office, including IT technicians, data center engineers, sales, advertising, finance, customer support. Due to the passing of LB1080, which was a transitory exemption that we received on our components and parts for servers, switches, equipment that would basically be assembled in Nebraska and shipped to our other data centers across the country, we made a long-term strategic and business decision to locate an additional component of our business here in Nebraska. We creatively called it the Yahoo! Factory, which enables us to centralize our operations and serve as the distribution center and delivery hub for the IT needs of all of our facilities in the United States. The integration into our existing footprint was possible due to the Legislature's actions, and

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we have not let you down. Construction is completed. The employees are being hired. We actually hired three of our managers this week. They started on Monday. And the equipment is being moved in. We delivered on all the promises that we said we would do if the exemption was given, and we've done that. Unfortunately, LB405 not only will cause Yahoo! to pause and reconsider future expansion efforts. It's going to have a detrimental impact on the viability of the business operation that we just moved here. The legislation had an effective date of January 1, so we're essentially 39 days into the legislation being enacted where we could do something with it, and now there's legislation out there that would basically take that away. I'm a native Nebraskan. My dad served in the United States Navy for 27 years. We moved around a lot as a kid. He came back to retire here when I was a tenth grader in high school. He came back to be next to his family. There was no talk of tax rates or anything like that as well. I appreciate the opportunities that Yahoo! has provided me to make an impact globally, while allowing me to...me and my wife, to raise our three boys locally. I, like hundreds of other "Yahoos," call Nebraska my home. We're committed to our communities--in fact, I've got a tour tomorrow at 8:00 a.m. for some high-ability eighth graders from the Papillion School District to talk about jobs in technology--raising our families, establishing our roots, and we're proudly representing Husker Nation to the world. We've been a trusted partner when it comes to working hand in hand with local and state leaders to promote Nebraska as a good place to do business. We've spoken with other large companies on behalf of Nebraska to encourage them to look here as a place to locate their data centers and corporations, and we employ young Nebraskans who do make good salaries, again, the same types of salaries that we're talking about creating with LB405. We appreciate you allowing us to share our views, hope to continue the growth and investment that Yahoo! has made since locating to Nebraska. I do want to thank you guys for your time today and your continued service to the state. There's a newfound respect for the amount of work that goes into what it takes to be a state senator, so, me personally, I appreciate that. So if there's any questions, I'm more than happy to answer them. [LB405]

SENATOR HADLEY: Questions? Mr. Whitney, you have a typo. You say, "Thank you for your time this afternoon." You might want to change that to "tonight." (Laughter) [LB405]

CHUCK WHITNEY: I know. I've actually gone through and scribbled it out several times. [LB405]

SENATOR HADLEY: Yes. [LB405]

SENATOR PIRSCH: Chairman, I don't think so. I think he means tomorrow afternoon. [LB405]

SENATOR HADLEY: Tomorrow afternoon, okay. (Laughter) Thank you, Mr. Whitney.

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[LB405]

CHUCK WHITNEY: Yeah, thank you. [LB405]

SENATOR HADLEY: Next. [LB405]

JOHN KNAPP: Thank you. Excuse me, I'm kind of hoarse with a cold. So thank you, Chairman Hadley, Senators, and Governor Heineman, Senator McCoy, Senator Ashford, and the Department of Revenue, for having this discussion. I think it's long overdue. Unfortunately, I guess I'd say I'm opposed to the bills, LB40... [LB405]

SENATOR HADLEY: Could we have you give your name and spell it, please, sir? [LB405]

JOHN KNAPP: Oh, I'm sorry. Sure. John Knapp, J-o-h-n K-n-a-p-p, and I'm from Springfield, Nebraska. I'm opposed to bills LB405 and LB406 eliminating the state income tax and sales tax exemptions as written. Earlier...I agree with a lot of the ag comments that have been made earlier. The three-legged stool has been mentioned and I'd just like to point out that in the '90s our superintendent in the school district was proposing an addition, a bond addition or an addition to the school for a bond. And him and his wife worked in the district and had compensation of over \$100,000. His acreage home in a SID paid about a third of the property taxes to the school district that I did. I brought the issue up with senators and I believe it was Governor Nelson at the time, and I told him that I was...or, excuse me, they told me that I was looking at the issue improperly because I was a resident plus a business; that the businesses that hire the residents pay income and sales taxes that make up the deficit between what I'm seeing in what he's paying for property taxes and what I'm paying, and through...this is done through the state aid formula. And in reality, the largest employers in the state is the government and nonprofits, which do not pay sales tax or income tax in most cases. The large corporations that have large numbers of employees get property tax relief and other tax breaks, so we keep pushing the tax load down to the smaller business base. And I don't believe that the sales tax and property tax are good taxes. I have to spend money, if this bill is passed, I would have to spend money on the inputs and I'd have to pay my property taxes, regardless of any income. Weather forecasts aren't the most promising for the dryland farmer this year, which I'm a dryland farmer. If we have a dry year again, I'll have to pay the taxes. My property taxes have gone up about \$4,157 in the last two years on 240 acres, and that's...and the total bill is \$14,000. And so if you put this sales tax in, it would add...well, it would add more to it that I have to come up with. And these taxes have no correlation at all to income. And so if I had my druthers, I don't like the idea of picking winners and losers with these exemptions removal of who gets an exemption and who doesn't. And I think there's other businesses besides farming, as you've heard today, that are affected also. I would urge you to do more studies on the tax issue, more debate. And I would like you to give fair consideration to

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the FairTax with its prebate, which would eliminate the income tax and do it in, I believe, in a more equitable manner. And to do it on the state level, I think you would have to also eliminate the property tax, all the current state taxes, and use the revenue generated by the FairTax to, you know, it would have to be set at revenue neutral, not to save anybody money. But anyway, I think the FairTax has...the sales tax is only on the end product. It is only a new product. It has no sales tax on used products. And I'm not an authority on it and so if you want to, I would urge you to go to the FairTax.org site and they have all kinds of information on the FairTax. And that...it was developed for the national level, so I don't know how it scales down. I would think it should work at the state or lower level, but I, you know, I'm not an economist. So I'd have to...I'd like to have you think about it and discuss it. And I guess that's about it, if you have questions. [LB405]

SENATOR HADLEY: Any questions for Mr. Knapp? Thank you. We appreciate you coming down. Thank you. Next. [LB405]

JOHN KNAPP: Thank you. [LB405]

ANDY HUNZEKER: Good evening, Senators. My name is Andy Hunzeker. I'm the CFO at Lincoln Industries. It's spelled H-u-n-z-e-k-e-r. Lincoln Industries is a manufacturer and metal finisher of parts that serve many industries. We were founded in 1952 in Lincoln, Nebraska, celebrating 60 years of business this calendar year this year. We have around 600 people working in our four facilities in Lincoln. If you see something shiny on a Harley Davidson, it probably came through Lincoln Industries. If you were going down the road and see a Kenworth and Peterbilt truck and see the exhaust stack, that was produced at Lincoln Industries. We serve many other industries in the ag industry as well as gaming. Our management team is full of people, including myself, who went to school at the University of Nebraska, left for 10 or 15 years, and came back. We're excited to have the opportunity to come back to Nebraska and work in a growing, exciting company in our home state. LB405 would devastate manufacturing in Nebraska, more specifically Lincoln Industries. We'd be forced to move, at a minimum, 200 of our jobs or a third of our work force to a different state. The ripple effect on our community and our local suppliers would also be significant. We would most likely keep our plating facility here in Lincoln, but all assembly, fabrication, and production would be moved out of state. Most future growth and capital expansion would have to be out of the state. We compete in a global marketplace. It is very price competitive. LB405 would drastically impact our ability to compete, not only against companies in China but against companies in Iowa, Wisconsin, and Kansas. A real example is the assembly of parts. We make a lot of components and put them together. We are allowed by our customer to mark commodity components up about 10 percent. If the state tax of those same parts is 7 percent, we have 3 percent to pay for everything else--material handling, order entry accounting, all the other overhead. We'd be losing money on all assemblies produced within the state of Nebraska. As a company, we have averaged

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20 percent compound annual growth for the last 20 years. We have more than doubled our work force in the last decade and fully intended to continue to provide a significant amount of new jobs for our company in the state. Our growth plans are for our company to more than double in the next five years. We want that to be in Nebraska. If LB405 were to pass, the growth would have to be in another state. Thank you for your time. [LB405]

SENATOR HADLEY: Thank you. Any questions? Thank you, sir. Next. [LB405]

MARK INTERMILL: (Exhibit 50) Good evening, Senators. My name is Mark Intermill, spelled M-a-r-k I-n-t-e-r-m-i-l-l, representing AARP. I was told we were going in reverse alphabetical order so I...(laughter). We are opposed to LB405. I'm not going to go through my statement. There's just a couple of paragraphs about how we see this affecting our members who use prescription drugs and also healthcare facilities. We've included just our basic policy on taxation and also I included some information that I picked up from the Forbes ranking of best states for business. I also thought it was appropriate for AARP to go towards the end because we are an organization of consumers, and we are the people who will ultimately pay the additional sales tax. Now there will be some of our members who will fare well under this proposal. Those individuals who have high income taxes will probably...would probably net positive on this LB405. But as I've listened to the testimony about the additional cost of things that are made of steel, of electricity, of food, of prescription drugs, nursing facility, medical supplies/equipments, temple dues or church dues, there are also some costs that consumers will bear. And I think the people that will probably net negative are those that are least able to afford it. So with that, I'll end my testimony and be happy to respond to questions. [LB405]

SENATOR HADLEY: Okay. Thank you, Mr. Intermill. Any questions? Yes, Senator Hansen. [LB405]

SENATOR HANSEN: One quick one. What about Social Security exemption? [LB405]

MARK INTERMILL: We...the bill that we've supported is the limited exemption targeted towards those individuals at lower income levels. So again, we want to look at the progressivity of the taxation system, which we think that would help to address that, so that's kind of where we stand there. [LB405]

SENATOR HANSEN: Same with military exemption for your members? [LB405]

MARK INTERMILL: We didn't...yeah, we didn't take a position on military but... [LB405]

SENATOR HANSEN: Thank you. [LB405]

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SENATOR HADLEY: Thank you. Thank you, Mr. Intermill. Next. [LB405]

KENT KNOLL: My name is Kent Knoll, K-e-n-t K-n-o-l-l. Thank you for having me. This might be the shortest testimony tonight, so I wanted to go on record. I'm the director of compliance for Omaha Steaks and we oppose the bill. I could go on,... [LB405]

SENATOR HADLEY: (Laughter) Thank you. [LB405]

KENT KNOLL: ...but I think that...I think I'll save... [LB405]

SENATOR HADLEY: You have a great product. Thank you. [LB405]

KENT KNOLL: All right. [LB405]

SENATOR HADLEY: Thank you, Mr. Knoll. [LB405]

KENT KNOLL: Thank you very much. [LB405]

SENATOR HADLEY: Thank you. Next. [LB405]

KIM ROBAK: (Exhibits 51-55) Senator Hadley, members of the committee, my name is Kim Robak, K-i-m R-o-b-a-k. I'm here tonight on behalf of First Data Corporation in Omaha. My testifier had to fly back home to Denver and so I submit a letter on behalf of First Data in opposition to the bill. First of all, I'll do that. And I would like to say, on behalf of First Data, that we want to thank Senator McCoy, who reached out to us on behalf of several clients to say if you have any issues or concerns, please come to him and let him know. And we very much appreciate that. I also want to thank committee counsel and I want to thank the Tax Commissioner, who have been very helpful in answering all the questions that we've had on all these bills. And so there have been a number of questions that we've had, but every time we've called, we've gotten immediate answers. With that, I'd also like to go on the record in opposition to the bill on behalf of CAFCON, the Children and Family Coalition of Nebraska. I have a letter from the 14 CEOs and presidents of those organizations in opposition to the bill. I'd like to go on record in opposition of the bill on behalf of Nebraska Methodist Health System, who will pay an additional \$20 million in tax if this bill passes, LB405. I'd like to go on record in opposition to the bill on behalf of Ash Grove Cement Company, which is the largest family-owned cement company in the United States. They have over 800 employees across the state of Nebraska employed by Lyman-Richey Company, which is a wholly owned subsidiary of Ash Grove Cement Company, and they are in opposition to the bill. And finally, I'd like to go in opposition to the bill on behalf of PhRMA, the Pharmaceutical Research and Manufacturers of America, who also oppose the bill because of passing along the cost to the various consumers for the high cost of healthcare. With that, I'd be happy to answer any questions. [LB405]

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SENATOR HADLEY: Thank you, Ms. Robak. Questions? None. Thank you. Next.
[LB405]

KORBY GILBERTSON: (Exhibits 56-59) Good evening, Chairman Hadley, members of the committee. For the record, my name is Korby Gilbertson, it's spelled K-o-r-b-y G-i-l-b-e-r-t-s-o-n, appearing today as a registered lobbyist on behalf of Tyson Foods in opposition to LB405. In the interest of time, I will submit a letter of testimony. I have also been asked to testify in opposition to the bill on behalf of NAM, which is the Nonprofit Association of the Midlands; the Center for the People in Need; and Voices for Children. Thank you. [LB405]

SENATOR HADLEY: Thank you. Questions? Seeing none, anybody else? [LB405]

KENT KNOLL: I tried to set the standard. [LB405]

STEVE NELSON: (Exhibits 60 and 61) Senator Hadley and members of the committee, my name is Steve Nelson, S-t-e-v-e N-e-l-s-o-n, and I'm a farmer from Axtell. I farm with my son and we raise irrigated corn, soybeans, and hybrid seed corn. I'm here on behalf today of Nebraska Farm Bureau. I'm the president of Nebraska Farm Bureau and we are in opposition to LB405. Let's see, I'll give you here...I should have passed these along. I think you took my copy. This is the one that's got all the stuff crossed out so this is the one we want to use. (Laughter) [LB405]

SENATOR HADLEY: Oh, we'll get you that one. [LB405]

STEVE NELSON: Certainly let me start by saying that we agree with Governor Heineman and Senator McCoy's goal of growing the state's economy and creating jobs. However, our concern is that LB405 will, instead, weaken our state's largest economic sectors and could cost jobs. Thus, our members believe it is in the best...it is best to indefinitely postpone the bill and focus on other issues as means of tax relief and economic growth. Lots of points have been made today and I'm not going to go over those, but I would appreciate that you read the testimony that I provide. Just a couple of things that I would add in reference to some of the things that have been said, that certainly believe that the policy reasoning behind many of the exemptions that agriculture and manufacturing have continue to be valid today. I think that one of the issues, and it's been raised some by industry, maybe a little less by the agriculture sector so far, and there is an attachment to the...I guess here it is, here's what you need...that includes a chart that shows what other states do around us. And as you have a chance to look at that, it talks about Nebraska's competitiveness and surrounding states, and so I'd like to have you take a look at that. A lot of the companies that have been here have talked about the options that they have, and certainly in agriculture we have less options. It's hard to leave the state when you're farming and

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ranching. So just would reiterate that we are in opposition to the bill and ask that you indefinitely postpone the bill. I'd like to talk about young farmers and ranchers sometime but this may not be the time. And I thank you very much. Would answer any questions that you might have. [LB405]

SENATOR HADLEY: Any questions for Mr. Nelson? Yes, Senator Hansen. [LB405]

SENATOR HANSEN: Thank you. Steve, if you say you want the bill IPPed, you don't want to talk about it anymore then? And if we could lower the sales tax rate, provide for some property tax relief, you don't want to...do you want to be part of that conversation... [LB405]

STEVE NELSON: Certainly, and I think... [LB405]

SENATOR HANSEN: ...or just want the bill killed? [LB405]

STEVE NELSON: ...and I think that's in our testimony where we talk about wanting to be a part of... [LB405]

SENATOR HANSEN: I can't read this late at night so I... [LB405]

STEVE NELSON: Okay. (Laugh) I'm sorry. Certainly we want to be a part of the discussion and... [LB405]

SENATOR HANSEN: Okay. But so you really don't want the bill killed, or do you? [LB405]

STEVE NELSON: Well, I would... [LB405]

SENATOR HANSEN: If we do, we may lose the platform to discuss it. [LB405]

STEVE NELSON: Well, I guess that when I look at the bill I think that it should be killed and that we should start from scratch. I think one of the problems with the bill, and I've said this before, but we're really starting at a point that's very different from where we would want to be from a Farm Bureau perspective. Our members talk about property tax relief, which is what you're really asking about, and I think that that needs to be part of the start. If the start of this is how do we replace income tax, then it's a very...there's a lot of distance between those two starting points. And so I think it's important that we do have a discussion of our tax system but I think we need to start fresh and have all of the different taxes on the table. [LB405]

SENATOR HANSEN: Good. Thank you. [LB405]

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SENATOR HADLEY: Any questions? Thank you, Mr. Nelson. [LB405]

STEVE NELSON: Thank you. The page picked it up. I had several testimonies here and I'm going to have to look to see. Do I need to say those names? [LB405]

SENATOR HADLEY: No. No, we've got those. We've got them. [LB405]

SENATOR PIRSCH: (Exhibits 61-63) Have Agri-Business and Wheat Growers. [LB405]

SENATOR HADLEY: Yeah. Yeah. [LB405]

MARY JANE EGR EDSON: (Exhibits 63 and 64) Soybean and Co-op Council. [LB405]

SENATOR HADLEY: That's no problem, Mr. Nelson. We know it's there. [LB405]

STEVE NELSON: Okay, you've got them all. Okay. [LB405]

SENATOR HADLEY: Okay. [LB405]

STEVE NELSON: Appreciate that very much. Thank you. [LB405]

SENATOR HADLEY: Any other testifiers? [LB405]

JOHN HANSEN: Mr. Chairman, members of the committee, for the record my name is John K. Hansen, J-o-h-n H-a-n-s-e-n. I'm the president of Nebraska Farmers Union and appear today before you as my organization's president and also our lobbyist. We would associate ourselves with all of the testimony and all of the remarks that have been made by all of the folks in opposition. Our organization shares all of those viewpoints. We would point out a couple things maybe that are a bit different in that our organization passed a special order of business at our state convention that not only I think--and Steve Nelson did a good job of bringing that up--but focused on the need for the state of Nebraska to be serious about providing some property tax relief and that they very pointedly opposed the elimination of the income tax. And the reason that they did that was because the income tax is, based on all of the different kinds of taxation that we use in our state, it is the tax that is the most fair, based on ability to pay. And it represents the most sound economic policy, because the capital investment has been made. The risk has been taken. The product has been produced, it has been sold, and there is a profit and a revenue stream to tie into, unlike sale taxes, unlike property taxes that take money out of farmers' and ranchers' pockets whether or not there has been any money made or not. The time to tie into the revenue stream is when there's revenue. And so the income tax is the fairest of all of our tax revenue streams based on ability to pay and it's the best economic policy. And for that reason, we wanted to kind of point that out in particular, thank the committee for its diligence today. And rest up, we'll

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see you tomorrow. And I'll be glad to answer any questions if you have any. [LB405]

SENATOR HADLEY: Thank you, Mr. Hansen. Seeing none, thank you. [LB405]

JOHN HANSEN: Thank you very much. [LB405]

SENATOR HADLEY: Next. [LB405]

LORAN SCHMIT: (Exhibit 65) Chairman Hadley, members of the committee, my name is Loran Schmit, L-o-r-a-n S-c-h-m-i-t. I'm here today representing the Association of Nebraska Ethanol Producers, and we appear in opposition to LB405 and, of course, to LB406 also. I'm not going to read my testimony because of the lateness of the evening, but I want to call attention to a couple of issues, most of which have been said here many times this evening. But we have read the bill many times and I've had a number of conversations with other individuals who are interested in the bill. We do not even know, by reading this bill, whether or not the corn that is purchased by the ethanol plants is subject to the sales tax. Attorneys have called me and advised me both ways, and I heard by the grapevine that it's not taxed. But very frankly, when it comes down to the issue, we would much prefer to see a statement in the bill that says corn purchased for use (inaudible) is not subject to sales tax. The component parts portion of the bill caused us deep concern. I want to thank Senator McCoy for having the courage to bring a bill to the committee. I know what that's like and I know the pressure he is under. But I join those who say there has been a lot of tax work done. Mr. Niemann and Mr. Cederberg pointed out that there have been many tax issues addressed in the last 50 years. I entered the Legislature in 1969, two years after the '67 bill was passed. We spent the first session talking about tweaking the problems with the '67 bill, and every year since that time something has been done. Senator, it was referred to that past tax...a bill to tax all personal property back in '76. It didn't take long, they took the tax off farm equipment, business inventory, and livestock. Didn't take very long to gradually begin to put that back on, and today much of that is taxed again. There have been many changes made. LB775, which was a major change in the tax structure, and when Vard Johnson was carrying that bill I asked him what will be the total avoidance of taxes that you perceive will take place on this bill. He said, I can't imagine it being in excess of \$100 million. That's a matter of the transcript. I said, is it possible that it could be five or ten times that much? He said, Senator Schmit, as usual, you exaggerate. Well, the last time I checked the figure was...front figure was maybe \$2 billion plus I don't know how many more million dollars. So when we do something in this Legislature, the impact is always subject for discussion and apprehension. And so I like Senator Schumacher's idea of a study and what concerns me is that none of us knew about this bill till a short time ago and all of a sudden there comes a major impetus to pass a bill. And I would hope that we would not act hastily and hope we would have a decent study. In 1983 or 4 or 5, Senator Carson Rogers and I (inaudible) two bills, one which would have put a tax...sales tax on everything, including food, and one that exempted food. And we

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included the stocks and bonds, we included services and many other things. Got the tax rate down to less than 2 percent. So if you really want to look for property tax relief, that may be where you're going to have to go. And I'll have to tell you this. I got a ton a mail on those two bills and I had to use a wheelbarrow to cart out some opposition, and I could carry all the pro bills in my left-hand coat pocket and had plenty of room left for the wallet. So don't think it's going to be easy or everybody is going to like it. And I think that Tax Commissioner Ewald here, Governor Heineman knew when they introduced these bills that it wasn't going to be easy and wasn't going to be met with a lot of pleasure. But it's a serious business. When you listen to the arguments here today against LB405, I think, Senator Hadley, it's too bad we couldn't have an economics course or business course at the university that listened to this testimony, because so many of the things we do have such a long tail on them. And the Legislature was instrumental in creating the ethanol industry. This bill could very well put it out of business. If that happened, there would be a dramatic decrease in the market for corn and there's a dramatic decrease in the availability of distillery grain. I've got feed. I got calls from ranchers, from financial people, from truckers all wondering what's going to happen to the ethanol industry if this bill becomes law because of the impact on their business. So with that, I close my remarks. And I don't think anyone is restless enough to ask any questions, but I'm here. [LB405]

SENATOR HADLEY: Any questions for Mr. Schmit? Thank you so much for sticking with us tonight. [LB405]

LORAN SCHMIT: Okay. Thank you very much. [LB405]

SENATOR HADLEY: Is there anyone else that would like to testify? [LB405]

SENATOR SCHUMACHER: You're not getting dirty looks. (Laughter) [LB405]

SCOTT OLSON: Well, hopefully, I'm the person that you've been looking for all day. (Laughter) And the mind can absorb only what the butt can endure, correct? [LB405]

SENATOR HADLEY: Uh-huh. [LB405]

SCOTT OLSON: Thank you for letting me come up here. I appreciate it, ladies and gentlemen. Just a quick short deal for me. [LB405]

SENATOR HADLEY: If you would spell your... [LB405]

SCOTT OLSON: I'm sorry. My name is Scott Olson, S-c-o-t-t O-l-s-o-n. I'm from Tekamah, Nebraska. We run a small machinery operation there. We farm 3,000 acres. We buy, sell, and trade new and used farm equipment. And we also have an auction company in real estate. Really didn't plan on coming down here today and to do much

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with this, but the more I sat and listened, the more I learned. And it's been a very, very educational day, for me anyway. First time I've ever been to one of these. One thing about the bill that I can see coming up is the used machinery market, the auction end to me. The farming end is very...the ag end is very, very important also, but there's a lot of machinery that moves across the United States, north, south, east, west, just kind of goes all over the place. Good, clean farm equipment is at a premium. It is worth more today than it has been for, well, for quite a while. And as the new machinery gets higher priced, everybody has talked about, you know, the \$350,000 combines or whatever they are, which they are very expensive, the tractors, everything. But as the new stuff gets higher, the older stuff appreciates. So we've got a lot more higher volatile market on the used machinery going out of this state. If they put...let's just say the normal gentleman has...passes away, has an estate sale. People travel from lots of areas to these sales to buy this equipment. I mean I've seen...you know, and I travel a lot too. I'm in and out of Texas. I help do auctions in about six different states. But I can go to a sale in central Nebraska and know somebody from Colorado, Iowa, South Dakota, Minnesota, Kansas, Missouri. It goes a long, long way. If this bill would go into effect and have an effect on the price of the used equipment, and I'm not educated on this bill enough maybe to even be up here speaking, but if this does add sales tax to the used equipment going back out of this state, it will make a huge difference on what it...the auction industry does and what the used equipment market does or has in the state of Nebraska. South Dakota has their deal up there too. A lot of the Internet auctions of the machinery that is sold in the state of Nebraska will be bought at a normally cheaper price because they know they have to pay the sales tax on it up there. Just another point that I see did not come out today and I thought I'd throw that out. [LB405]

SENATOR HADLEY: Okay. Thank you, sir. [LB405]

SCOTT OLSON: Appreciate it. Thank you very much. [LB405]

SENATOR HADLEY: Any questions for Mr. Olson? Seeing none, thank you. Anyone else? (Laughter) Senator McCoy, would you like to close? Senator McCoy waives closing. With that, I will bring the hearing for LB405 to a merciful end. Thank you. (See also Exhibits 66 and 67) [LB405]