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Revenue Committee
February 13, 2014

[LB721 LB902 LB1056 LB1097]

The Committee on Revenue met at 1:30 p.m. on Wednesday, February 13, 2014, in Room 1524 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LB1056, LB721, LB902, and LB1097. 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: Okay. Welcome to the Revenue Committee. My name is Galen Hadley and I represent the 37th District in Kearney, and we're here. The first thing we're going to hear is the bill to move the Veterans Home from Kearney to Grand Island. (Laughter) Oh, I'm in the wrong hearing room. But if we did it in here, they'd never know it. We could just sneak it through, couldn't we? Anyway, our senators are introducing other bills and such as that, so please do not be offended if they're not here. They'll be in and out as time goes on. I'll introduce them as they come later. But Senator Schumacher is from Columbus, to my left; and Senator Pirsch from Omaha; Senator Sullivan from Cedar Rapids. On the far around will be Senator Burke Harr from Omaha; Senator Janssen from Fremont; and then Senator McCoy from Omaha; and Senator Hansen from North Platte. Our committee counsel is Mary Jane Egr Edson to my right; Bill Lock is our research analyst; and to my far left is our committee clerk Krissa Delka. Our page is Drew Schendt from Broken Bow. We appreciate Drew and all the work he does for us. And Broken Bow is a great place. Turn off cell phones or put it on vibrate while in the hearing room. The sign-in sheet for testifiers are on the tables by both doors and need to be completed by everyone wishing to testify. If you are testifying on more than one bill, you will need to submit a form for each bill. Please print and complete the form prior to coming up to testify. When you come up to testify, hand your testifier's sheet to the committee clerk. Please speak into the microphone and this is not a microphone for amplification. It is strictly for recording. We have transcribers that have to take down every word that's said in the committee. So if you play with it, all they hear is mumbo jumbo, so. And they also told me that the committee, senators, if they would lean forward. They're not to lean back like this and then try and speak into the microphone. So Senator Sullivan and I will get that message and get that correct. We will follow the agenda. We have had a change in order. We will hear LB1056, then LB721, LB902, and LB1097. We are being joined by Senator Pete Pirsch from Omaha. Only the introducer will have the opportunity for closing remarks. As you begin your testimony, state your name and spell it for the record. If you don't, I'll remind you to spell it, because again that is for the transcriber and the clerk to make sure that we have an accurate record. If you have handouts, please bring ten copies for the committee and staff. If you have only the original we will make copies, and give the handouts to the page to circulate to the committee. With that, Senator Davis, welcome to the Revenue Committee. We appreciate you coming to see us. [LB1056]

SENATOR DAVIS: Thank you, Senator Hadley. I thought all the work you did in here

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was mumbo jumbo. [LB1056]

SENATOR HADLEY: (Laughter) We try to keep that from everybody, including ourselves. [LB1056]

SENATOR DAVIS: (Exhibit 1) Good afternoon, Chairman Hadley and members of the Revenue Committee. I am Al Davis, A-I D-a-v-i-s, and I represent the 43rd Legislative District. Today I'm introducing LB1056. This bill would amend the current income tax code by creating a fifth bracket with a new rate and adjusting the current brackets 3 and 4. As I sat on the floor and listened to Governor Heineman present his State of the State Address, I realized that the Governor was correct in stating that it was time that Nebraska's middle class be offered tax relief and that is exactly what this bill was designed to offer. I do not believe that tax relief can be granted in Nebraska without finding other sources of revenue to provide for necessary governmental services, such as state aid to education, judicial services, corrections, foster care, and the other associated duties which government is charged to perform on behalf of the residents of Nebraska. While large, broad tax cuts have mass appeal, they can cripple the ability of a state to remain competitive as systems begin to decay due to the lack of funding. Nebraska's enviable status as an oasis of fiscal responsibility in the midst of wanton and dangerous tax and spending policies in neighboring states should not be discharged easily in a rush to slash tax rates in pursuit of questionable economic development which may never materialize. The current cutoff for bracket's 3 taxpayers is \$28,999 for an individual, and \$57,999 for a couple. All incomes above these amounts are now taxed at the highest rate of 6.84 percent. LB1056 would raise the cutoff level on this bracket to \$37,499 for an individual and \$74,999 for a couple. So these taxpayers would have a reduction of their taxes on the next \$8,500 for individuals and \$17,000 for couples. According to the United States Census Bureau, in the latest American Community Survey, approximately 20 percent of Nebraska's households have incomes that fall in these ranges. So these taxpayers would benefit from this reduction. The next change would be in bracket 4. The current bracket 4 applies the highest rate of 6.84 percent to all incomes over \$29,000 for an individual and \$58,000 for a couple. The new bracket 4 would apply that rate to income above the bracket 3 cutoff amount, but it would stop a \$74,999 for an individual and \$149,999 for a couple. These taxpayers would therefore have the benefit of the lower tax applicable to their income that falls in the bracket 3 range and would have no increase in their taxes for income unless they have incomes that puts them in the next highest bracket. The final change would be a new bracket 5 which would tax incomes over \$75,000 for an individual and \$150,000 for a couple at the new rate of 7.84 percent. I have provided several charts to you to show you the impact of the proposed changes. LB1056 would continue the philosophy of progressive taxation of incomes while giving a tax break to our citizens in the middle-income levels. Chart 1 demonstrates the modest income tax cuts for middle-income bracket taxpayers and shows that the percent of income for these individuals becomes less regressive with LB1056. Chart 2 is a study in income levels in

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Nebraska and how LB1056 affects each of these categories. You will note that only the top 1 percent of taxpayers' with incomes over \$388,000 are paying significantly more than they did under the old system. Chart 3 demonstrates what the average tax amount amounts to as a percent of income. Again it is only the top 1 percent who are paying a significantly higher percentage of their income under LB1056. Chart 4 is an accounting of the number of taxpayers receiving a tax cut versus the numbers seeing an increase. You will note that those receiving a cut dwarf those experiencing an increase. Chart 5 breaks these figures out in a similar way in a pie chart format demonstrating who is affected by LB1056. It is also important to address the fiscal note which came to me as a pleasant surprise. The initial bracket construction was based on attempts to tinker with, but not to dismantle, the existing income tax brackets, and was prepared by the Institute on Taxation and Economic Policy. Estimated losses which took place by loosening brackets 3 and 4 were to be made up by the addition of bracket 5, and our preliminary estimates were that the manipulation would produce an \$8 million fiscal note showing lost revenue. Therefore, the fiscal analysis done by the Department of Revenue and the Legislative Fiscal Office show a most happy increase of almost \$38 million in additional revenue, which we generated in this manner. This swing of \$46 million from loss to profit indicates that the proposal could be modified substantially by either granting more generous tax reductions to individuals with lower incomes, by reducing rates on the new top bracket, by increasing the level at which the new top bracket begins to take place, or any combination of the above. The study also demonstrates clearly an important fact: Imposing a 1 percent increase in income taxation on the top 5 percent of Nebraska taxpayers, while providing modest tax benefits to the bottom 95 percent, apparently produces a positive net gain to the state of Nebraska of almost \$38 million. If 4 percent of taxpayers in that bracket are only seeing a tax increase of approximately \$48, it is obvious that the lion's share of the \$38 million is not coming from that 4 percent or from the top 1 percent whose base income begins at \$388,000. The argument that tax reductions are necessary to reward the middle class for their hard work in building Nebraska's economy is a valid and worthy objective and one we should encourage. However, we cannot jeopardize our solid economic footing by haphazard cuts which threaten needed programs and unfortunately there is no free lunch. I do not believe it is fiscally responsible for Nebraska to reduce its Cash Reserve by slashing income tax rates, but this bill does provide an opportunity to give tax relief to the individuals who can really use it. And I urge the committee to advance the bill to the floor. Thank you, and I'd be happy to answer any questions. [LB1056]

SENATOR HADLEY: Are there questions for Senator Davis? Seeing none, thank you, Senator Davis. [LB1056]

SENATOR DAVIS: Thank you. [LB1056]

SENATOR HADLEY: Will you stay for closing? [LB1056]

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SENATOR DAVIS: Yes. [LB1056]

SENATOR HADLEY: Okay. We have been joined by Senator Burke Harr from Omaha. Next to him is Senator Charlie Janssen from Fremont; Senator Beau McCoy from Omaha; and Senator Tom Hansen from North Platte; Senator Paul Schumacher from Columbus; and I've introduced the other two. First proponent. [LB1056]

RODNEY VLCEK: Very good. Good afternoon, Senator Hadley, members of the committee. My name is Rodney D. Vlcek, spelled R-o-d-n-e-y, middle initial D, last name V-l-c-e-k, and I am the president and secretary-treasurer of the Nebraska State AFL-CIO. I am here to offer testimony in support of LB1056. We commend Senator Davis for bringing forward this bill. Unlike other tax proposals and the general rhetoric put forth by those favoring income tax reform, this bill would actually provide benefits to Nebraska's middle-class working families without blowing holes in our long-term budget. It would do so through two major mechanisms. First, the bill shifts upward the brackets affecting middle-class families. As rates sit currently, an individual needs to make only \$29,000 per year to fall into the highest bracket. That means a roofer making just under \$14 an hour pays the same income tax rate as a banker making \$500,000 per year. This adds to the overall regressive state of Nebraska's tax structure. By shifting the third and fourth brackets up, an individual would have to make over \$18 per hour before hitting the 6.84 percent tax rate. Second, LB1056 creates a new number 5 bracket affecting only the highest wage earners in the state. This ensures the middle-class families are not subject to an unfair burden of Nebraska's taxes. Once an individual makes over \$75,000 per year, well above Nebraska's median income, they would fall under this new top bracket. What this means is that a teacher making \$35,000 per year would receive a cut of over \$640 per year or a 26 percent tax break. A family with a custodian making \$27,000 and a postal worker making \$33,000 would receive a cut of nearly \$1,100. In contrast, an attorney making \$300,000 per year now pays just over \$20,000 to the state. After a new tax bracket is created, their burden would increase by only an additional \$3,000 for a mere 1 percent of their total income. The Institute for Taxation and Economic Policy estimates that 280,000 households would see a tax cut under this proposal, and only 24,500 households would see their taxes increase. Put another way, 33 percent of taxpayers, nearly all middle-class wage earners, would see their burden decrease. Only 3 percent of the taxpayers, nearly all at the top, would see an increase in their taxes; 65 percent would see no change as a result of this bill. Not only does this proposal provide meaningful income tax relief for Nebraska's working families, but is an overall budget positive. The Fiscal Office projects an immediate increase in revenue of over \$15 million. By fiscal year 2017-2018, that number jumps to nearly \$42 million. In total, between now and the end of the projection, the bill will raise nearly \$135 million while cutting taxes for average Nebraskans. This will allow the state to invest in infrastructure, job training, education, and restore some state aid to cities and counties. With all these policies, this will help create jobs and lower the property tax burden for working families. This is smart policy that would help make our tax system

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more progressive, increase budget stability, and allow the state to make much needed investments. We respectfully ask the committee to support LB1056 and I'll be happy to answer any questions that you may have. [LB1056]

SENATOR HADLEY: Are there questions? Seeing none. [LB1056]

RODNEY VLCEK: Very good. [LB1056]

SENATOR HADLEY: I forgot to ask, how many people are going to be testifying on this bill? Okay. I am going to use the light system because we have four bills today to get through. The light system just means you'll have a green light for four minutes, an amber light for a minute, and then the red light. But if you're in the middle of a thought you don't have to quit; you can even finish up. Thank you, sir. [LB1056]

RODNEY VLCEK: And I apologize if I went over the time. [LB1056]

SENATOR HADLEY: No, no. You didn't. [LB1056]

RODNEY VLCEK: Okay. All right, thank you. [LB1056]

SENATOR HADLEY: I kept...I would have told if you would have gone over, so. Next. [LB1056]

MIKE MARVIN: (Exhibit 2) Good afternoon, Senator Hadley, members of the committee. My name is Mike Marvin; that is M-i-k-e M-a-r-v-i-n. I am the executive director of the Nebraska Association of Public Employees. We are the union for state employees who represent most of the employees employed in the executive branch. I won't go through a lot of my testimony because we are pressed for time this afternoon. But I want to say, this bill we support because of two principles. We support it mostly because it provides middle-class tax relief. These are the people who need it. Now I'm going to fall into that bracket, and I will tell you that money that I get I will turn around and spend right here in this state. So that money will come right back in, into our economy, and we believe that will happen with most of the people who receive this. The second is we think this takes an approach that is thoughtful and makes sure that the state has the money to provide all of the services that it is required to do, and we appreciate that thoughtful approach. The Tax Modernization Committee, all summer long, did things that we thought were a very thoughtful approach and we appreciate those too. But we would urge you to move this bill out of committee and onto the floor. With that... [LB1056]

SENATOR HADLEY: Thank you, Mr. Marvin. Are there questions for Mr. Marvin? Seeing none, thank you. [LB1056]

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MIKE MARVIN: Thank you. [LB1056]

SENATOR HADLEY: Next proponent of the bill. [LB1056]

RENEE FRY: (Exhibits 3 and 4) Good afternoon, Chairman Hadley and members of the Revenue Committee. My name is Renee Fry, R-e-n-e-e F-r-y, and I'm the executive director of OpenSky Policy Institute. We are testifying today in support of LB1056. The Governor has said that OpenSky wants to raise taxes on the middle class. This is simply not true. In fact, here we are today testifying in support of a bill that would cut taxes for the middle class without jeopardizing funding for important investments in education, roads, and public safety. LB1056 would cut taxes for those making between \$37,000 and \$168,000. And while it would increase taxes for the wealthiest 5 percent, their tax increase would amount to less than one-half of 1 percent of their income. There has been a lot of debate about our top income tax rates, and no doubt, there will be much resistance to raising it. However, there is no correlation between the highest personal income tax rate and economic growth, either regionally or nationally, as you can see on the charts that I've handed out. In fact, Iowa with a top rate of 8.98 percent has the highest top personal income tax rate of our surrounding states and also has had the strongest economic growth among these states over the last decade. Furthermore, the top marginal rate is very different from the effective tax rate, which is the rate that is actually paid. The Tax Modernization Committee found that while our top marginal rate is high, our effective rate or tax burden is comparable to other states, both regionally and nationally. This is because, as the Tax Modernization Committee report noted, we don't have a cap on exemptions and deductions, which brings the effective rate down significantly. Currently, the wealthiest 5 percent of Nebraskans pay an effective income tax rate of 4.39 percent, which would increase to 4.64 percent under LB1056; well below the current marginal tax rate of 6.84 percent or the 7.84 percent proposed under LB1056. Now we wouldn't go so far as to say that the bill would lead to economic growth. Based on the research, we believe that the best path to economic growth is making investments in our economy, such as job training, venture capital, and pre-K, for example. But if the Legislature wants to cut taxes for the middle class, we believe this is a more responsible path that won't jeopardize the very investments we need for a strong economy. I will say we were surprised that the fiscal note was revenue positive. As Senator Davis mentioned, the Institute on Taxation and Economic Policy has estimated an \$8 million revenue loss once fully implemented. It would be our hope that this revenue gain could be used to provide some property tax relief, through increased state tax or the property tax credit program. Thank you for your time. I'd be happy to answer any questions. [LB1056]

SENATOR HADLEY: Are there questions for Ms. Fry? I will ask the first question, and I should have asked for Senator Davis. But actually it is not a tax cut for those, the middle class, to an extent, because they still would be paying the 6.84 percent. Is that correct? [LB1056]

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RENEE FRY: No, no, because of the broadening of the rates they would actually see a tax cut. So all families between \$37,000 and \$168,000 would actually get a tax cut. [LB1056]

SENATOR HADLEY: Would actually... [LB1056]

RENEE FRY: Yes. [LB1056]

SENATOR HADLEY: Would actually see a tax cut. [LB1056]

RENEE FRY: Yes, right. [LB1056]

SENATOR HADLEY: Okay. Thank you. Senator Sullivan. [LB1056]

SENATOR SULLIVAN: Do you have any speculation on why there is this difference in the fiscal impact between the two, between our Fiscal Office and the group? [LB1056]

RENEE FRY: Yes. My best guess would be they have pretty sophisticated modeling where they can project revenue... [LB1056]

SENATOR SULLIVAN: They meaning? [LB1056]

RENEE FRY: ITEP, the Institute for Taxation and Economic Policy. Their limitation though is year to year, so they fall a year behind. So my guess is that incomes at the highest level have made significant gains over the last year, and possibly larger than their modeling would have indicated. That's the best answer that we could come up with in terms of why we're seeing that difference there. [LB1056]

SENATOR SULLIVAN: Thank you. [LB1056]

SENATOR HADLEY: Other questions for Ms. Fry? Yes, Senator McCoy. [LB1056]

SENATOR McCOY: What is Iowa's effective tax rate? [LB1056]

RENEE FRY: That's a great question. Their effective tax rate is...their effective tax rate, I think, is slightly higher than ours, but I can find out and get back to you. [LB1056]

SENATOR McCOY: Because I think if we want to look at effective tax rates, it would be wise to look at them across the board as to what they are... [LB1056]

RENEE FRY: Sure. [LB1056]

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SENATOR McCOY: ...comparably speaking. [LB1056]

RENEE FRY: Sure. Now again, the effective tax rate is going to vary based on the income level. So in Nebraska what I was speaking to about the effective tax rate is the effective tax rate on our highest income earners who would see a tax increase. Iowa is going to have the same situation. They have, I think, eight or nine different income tax brackets, so they're going to have a lot of variation in their effective tax rates just like we do. So we would have to look by income level. But we can certainly do that. [LB1056]

SENATOR McCOY: That's my point and why I asked the question because I think effective tax rates can very widely vary as to how they actually compare when you look at that. [LB1056]

RENEE FRY: Right. Now I will say that when we compared...when we looked at middle-class families, we did a report a few weeks ago where we looked at middle-class families making about \$68,000, which was the median, and we looked how their effective tax rate varied compared to other states that didn't have gaming or didn't have natural resources. Iowa's was one of those states that we compared to, and their income tax was higher for that median income family than Nebraska's, the rate that they actually paid. [LB1056]

SENATOR HADLEY: Any other questions? Thank you, Ms. Fry. [LB1056]

RENEE FRY: Thank you. [LB1056]

SENATOR HADLEY: Next person. [LB1056]

MARK INTERMILL: Good afternoon, Senator Hadley and members of the Revenue Committee. My name is Mark Intermill, M-a-r-k I-n-t-e-r-m-i-l-l, and I'm here today on behalf of AARP. I've appeared before the committee before and talked about the principles that we're looking for in a taxation system, including progressivity and adequacy of revenue. As I look at LB1056, it meets those standards. It does maintain revenue, provides additional resources that could be used to look at some of the other tax proposals that we have supported. So I commend Senator Davis for bringing this and we think it is worthy of being put on the table as you consider alternatives for reforming the tax structure. [LB1056]

SENATOR HADLEY: Are there any questions for Mark? Thank you, sir. [LB1056]

MARK INTERMILL: Thank you. [LB1056]

SENATOR HADLEY: Next proponent. [LB1056]

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AUBREY MANCUSO: (Exhibit 5) Good afternoon, Senator Hadley and members of the committee. My name is Aubrey Mancuso, A-u-b-r-e-y M-a-n-c-u-s-o, and I'm here on behalf of Voices for Children in Nebraska. We're also here in support of LB1056 because it would provide tax cuts for middle-class Nebraskans without resulting in a significant revenue loss to the state. When we look at trends in median income in Nebraska, it is clear that middle-income Nebraska families are increasingly struggling to make ends meet. Between 2000 and 2012, Nebraska median income, when adjusted for inflation, fell by 28 percent, and this has limited the purchasing power of many Nebraska families whose incomes just aren't keeping pace with the rising cost of goods and services. Basic necessities like food and childcare are becoming more challenging for Nebraska's working families to afford. And these are families that are generally not eligible for public assistance that's provided to help lower-income families afford some of these necessities. So increasing the progressivity of our tax code is one way to address some of the financial challenges these middle-income families are facing and we would respectfully urge the committee to advance this bill. Thank you. [LB1056]

SENATOR HADLEY: Thank you, Ms. Mancuso. Are there questions? Seeing none, thank you. [LB1056]

AUBREY MANCUSO: Thank you. [LB1056]

SENATOR HADLEY: Further proponents. Are there people in the opposition? [LB1056]

RON SEDLACEK: Good afternoon. Chairman Hadley and members of the Revenue Committee. For the record my name is Ron Sedlacek, R-o-n S-e-d-l-a-c-e-k. In order to...we have a number of bills to get to, and so in order to expedite our testimony I just wanted to enter the following organizations which I'm here today to represent. That's the Nebraska Chamber of Commerce, the Omaha Chamber of Commerce, the Lincoln Chamber of Commerce, the Nebraska Bankers Association, and the National Federation of Independent Business-Nebraska. [LB1056]

SENATOR HADLEY: Thank you, Mr. Sedlacek. [LB1056]

RON SEDLACEK: Thank you. I view today as being the start of discussion on income taxes and income tax rates here in Nebraska. And there's some aspects of the bill that I could find supportive in the sense that we are lowering some income tax rates. However, the organizations that I represent would like to see tax rates lowered on all brackets in Nebraska. Preliminary studies shows that right now as far as nominal rates, we're in the top 20 in the United States. This would bring us close to the top 10, if not in the top 10. Iowa was mentioned a couple of times in questioning. With this bill you take a look at the effective rates, we would surpass Iowa. Iowa provides for the deductibility of federal income taxes paid. That makes a difference. We don't. But as we look at the different states, where would we lie? Well, California's highest rate is on incomes over

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\$1 million, not \$75,000. Hawaii, on incomes over \$200,000--these are individuals rates, not families. New Jersey, over \$500,000. New York, over \$500,000. Oregon, over \$250,000. Rhode Island, \$173,650. Vermont, \$373,650. We believe that this would not be competitive, particularly when you take a look at not only individual taxpayers but also the fact that the corporate model is no longer necessarily the model of choice for business organizations as they are now organizing under different methods, such as limited liability corporations, limited liability partnerships, and other pass-through entities. Of course, those pass-through entities pay at the individual rate. And so for these reasons we would oppose the legislation. [LB1056]

SENATOR HADLEY: Any questions for Mr. Sedlacek? Seeing none, thank you. Oh, I'm sorry. Senator Schumacher, I'm looking around. [LB1056]

SENATOR SCHUMACHER: Thank you, Senator Hadley. And thank you for your testimony today. Central to the issue of taxing, whether the corporate rate or the highest levels of the income tax rate, there are all kinds of conjectures. One says that if we have an income tax rate above some magic number, people will flee; high-income people who we need to sustain the economy will choose not to locate here or will leave the state for other activities. And also if our taxation of business is too high, of businesses who may be looking for a place to locate, to invest, will avoid our state. And those two areas have been the subject of great conjecture. Do the organizations that you represent have any hard and credible data as to what that magic number is, and, you know, exactly how much we should be concerned about that and the math that says at this point we better not go over or go under? [LB1056]

RON SEDLACEK: I represent a number of organizations here today, and I don't want to speak for all of them. I can speak on behalf of the State Chamber of Commerce only in that answer. I certainly don't represent the Bankers Association or other chambers and NFIB in those remarks. But is there a magic number? Yes and no--or maybe. There is not really any hard and fast empirical study that I can point to personally that says here's the magic numbers or this is the tipping point, because you have to take a look at a lot of the other factors that are unique to the company or into that decision making, such as, you know, what is the regulatory environment; what is the other costs of doing business; the employer-employee relations; relationships with local governments, and so forth. So there's a lot that is built in. Certainly taxation does make a difference, and you don't really have to have an empirical study necessarily; but intuitively, you know, can see it happening when states on both coasts that have had economic issues and financing issues in the government, they raise taxes; there is it seems a migration, or at least you read about that type of migration outside of that state, be it business startups or relocations or new manufacturing maybe outside of those states' borders as opposed to within. So there is...you know, certainly taxation does influence conduct. [LB1056]

SENATOR SCHUMACHER: Well, I mean there's been several studies that you are well

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aware of in various Internet contests, magazine contests, that show Nebraska ranks really, really well in a lot of those particular categories, comes in number one, number two, three, four, and does surprisingly well, even though I don't suppose those studies were taken last week when it was 17 below. But so, you know, part of the struggle I'm assuming for other people on this committee, certainly for me, is where is that tipping point and where does the calculus say, you know, this idea is okay; or no, this one...I mean, add an extra point of tax to those people and you will end up losing ground revenue-wise. [LB1056]

RON SEDLACEK: Um-hum. In so many of those studies, for example, the Ron Pollina's study which shows us in pretty good shape. And it's a site location consultant I think using over 21 factors. If you take a look at taxation alone as far as the tax climate, we don't do so well. But when you factor in broader aspects of our economy or our system, and so forth, then we do: right-to-work state; what are our workers' comp costs or unemployment compensation, and so forth. Actually workers' comp, we're not doing as well as we had before. But all that is a factor, are factors. Taxes alone, you know, I certainly can show you where we rank as far as those companies are concerned when they look at taxes themselves and then decide where you want to be as a matter of policy. [LB1056]

SENATOR SCHUMACHER: Do you know, without identifying any particular company, of people who have said, look, a 1 percent tax one way or the other is why we ran from Nebraska or came to Nebraska? Are there specifics, or is that more of this general conjecture, feel, kind of thing? [LB1056]

RON SEDLACEK: Oh, they're specifics, and I'm not going to name companies, obviously; but yes, there's some. We've had migration of some companies outside of the state because of the unique tax situation which they found themselves in. Absolutely. [LB1056]

SENATOR SCHUMACHER: Thank you. I don't have anything further. [LB1056]

SENATOR HADLEY: The Tax Modernization study, Mr. Sedlacek, we had a testifier from Omaha who was very involved in developing LB775 and I think the Advantage Act also, and made the comment that he works with a lot of companies in looking at where they're going to move. And, you know, he made an interesting comment. He said, taxes are just one of the factors that we look at. So do we run the risk that if we have significant tax break cuts, that maybe we won't have the school systems that we have now; maybe we won't have the police systems that we have now; the fire department systems that we have now; the roads we have now. Is there a chance that we're going to give up those factors that some companies might be willing to come to Nebraska for, because we want lower taxes? The taxes are used to pay for those services. Do we run that risk? [LB1056]

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RON SEDLACEK: I think that certainly infrastructure, you know, the state of the highways is an example to add to the laundry list, and means of transportation across the state as well as schools. That all plays a factor, there's no question about it. We'd have our head in the sand if we said that was not. However, there are ways in which we can look at our income tax system, and then that's part of the discussion. There's a lot of bills...or some bills, I should say, that we'll be hearing today, that propose different philosophies on how to address. And there's probably some, I don't know if I want to call it middle ground, but there's ways in which we can, in Nebraska, reduce our nominal rates and to get closer to what that effective rate actually is. That's one way of addressing the issue so that when we do have companies or individuals looking to do business in Nebraska, invest in Nebraska, and you've got them at the table and just about ready to sign up, and they say, oh, by the way, what is your highest income tax rate, and you tell them, and risk that. And they say I've got two other states looking at it, or one other state, you know, that's not...I'm not sure yet, you know. And that does have an effect when we are in that situation, so. But there are ways in which to address this issue and still have a fiscally responsible way in doing so, if that makes sense. [LB1056]

SENATOR SCHUMACHER: Any other questions from members of the committee? Seeing none, thank you for your testimony. [LB1056]

RON SEDLACEK: Okay. Thank you, Senator. [LB1056]

SENATOR SCHUMACHER: Next opponent. [LB1056]

MATT LITT: Senator Schumacher and members of the Revenue Committee, my name is Matt Litt, M-a-t-t L-i-t-t, and I'm the Nebraska director of Americans for Prosperity, a grass-roots free market advocacy group with more than 40,000 members statewide. I'm testifying on behalf of our organization in opposition to LB1056. Our organization was in this committee hearing room last year testifying to eliminate the income tax and have a discussion about sales tax exemptions. Members of this committee and other members of the Legislature traveled around the state as part of the Tax Modernization Committee, hearing from citizens in all corners. I believe the message was clear: Nebraskans across the state want lower taxes. LB1056 ignores the will of the people and instead would do the opposite of what this committee has heard in the past year by actually increasing the state's tax burden. According to the Tax Foundation, Nebraska already has the 21st highest state and local tax burden. Our neighboring states have lower burdens. Raising taxes is the wrong direction and runs counter to what Nebraskans have said they want from the Unicameral. Our state's tax code already hinders long-term growth. The top income tax rate is already one of the highest in the regions and we also have the 12th highest state...12th highest capital gains tax in the country. We tax what people earn and we tax what they try and save. We already are at a disadvantage compared to our neighbors. We should not make this worse. Our

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organization seeks a tax code that has fewer brackets, lower rates, and is simpler. This bill makes our middle of the road tax code worse. And I thank you for your service to our state and your time today. [LB1056]

SENATOR SCHUMACHER: Any questions from members of the committee? Seeing none, thank you for your testimony. [LB1056]

MATT LITT: Thank you. [LB1056]

SENATOR SCHUMACHER: Next opponent to LB1056. Seeing none, people in the neutral position on LB1056. Seeing none, Senator Davis, the floor is yours. [LB1056]

SENATOR DAVIS: Thank you, Senator Schumacher and members of the committee. I don't have a prepared closing. Just to rebut a few of those statements that were made. When the bill was originally drafted, the idea was it would be revenue neutral. We did end up with an \$8 million note which I thought was a manageable entity...a factor for us to deal with. Coming in with a \$37 million increase obviously was a surprise to me and was not what the intention was. There is no intention to raise taxes. But there is an intention to try to deal with what I perceived to be a need for tax relief for middle-class taxpayers. It just makes sense. These are the people that are going to be buying our products and living within our state. You heard Americans for Prosperity talk about sales tax, which is obviously the most regressive tax and hurts the poorest people the hardest. This is something that we don't want to do. If we want to look at tax reform, let's look at modest changes and something that will benefit all Nebraskans, not just the top 1 percent. Thank you. [LB1056]

SENATOR SCHUMACHER: Okay. Senator Hansen. [LB1056]

SENATOR HANSEN: Thank you. Thank you, Senator Davis. I have a question about the fiscal note, and what would bring it back to...on that highest grade, what would bring it back to revenue neutral as, say, to raise that threshold? That threshold is not very high, \$150,000. Because two young professionals can certainly make \$150,000, and they're...and they start out in the middle class too. [LB1056]

SENATOR DAVIS: I think that would be something we really need to look at, Senator Hansen, and I can certainly do that. It came as just as much of a shock to me as it did to anybody else. [LB1056]

SENATOR HANSEN: They're always a shock. [LB1056]

SENATOR DAVIS: Yeah, yeah. But, you know, I would say tax cuts are modest tax cuts, but they are still tax cuts. And I think we ought to evaluate that and see what we could do with that. I would certainly be amenable to doing that. [LB1056]

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SENATOR HANSEN: Thank you. [LB1056]

SENATOR DAVIS: Thank you. [LB1056]

SENATOR SCHUMACHER: Any other questions? Thank you, Senator. [LB1056]

SENATOR DAVIS: Thank you. [LB1056]

SENATOR SCHUMACHER: (See also Exhibits 6 and 7) Thank you for bringing this bill. The next bill up, LB721. Senator Janssen. [LB1056]

SENATOR JANSSEN: I'd like to announce that Senator Hadley has joined us, for the record. [LB721]

SENATOR HADLEY: I'll be leaving again, (laughter) not that I don't like you. [LB721]

SENATOR JANSSEN: Mr. Chairman and members of the committee, for the record I am Senator Charlie Janssen, C-h-a-r-l-i-e J-a-n-s-s-e-n. I represent District 15 which is Fremont, Uehling, and all of Dodge County. LB721 contains seven important components. It provides for direct property tax relief to Nebraskans by increasing the annual funding of the property tax credit program by 30 percent to \$150 million; reduces the valuation of agricultural land from 75 percent of market value to 65 percent of market value; reduces all income tax rates by 20 percent over a specific time period; indexes all income tax brackets annually for inflation; eliminates state income taxation of Social Security benefits; eliminates state income taxation of military retirement benefits; requires the Department of Revenue to contract for new technology to identify nonpayers of taxes lawfully owed. The need for property tax relief and income tax relief is very clear. We have the 16th highest state in local property tax collections per person in the country. Even more alarming when factoring in the average property taxes assessed as a percentage of the average home value, we come in at 6th highest in the nation. Nebraska agricultural landowners can experience an effective rate that is 150-300 percent higher than the level of effective rates in some other border states. Our income tax rates are also uncompetitive and can discourage job creation and business recruitment efforts. Nebraska's highest rate exceeds all of our border states, with the exception of Iowa. Wyoming and South Dakota have no state income tax. Our highest tax rate kicks in much earlier than other states. LB721 would reduce all four of the income tax brackets by 20 percent, over time. Nebraska is one of 19 states that do not index for state income tax brackets for inflation. This, in effect, is the result of a hidden tax increase every year, which is known, as we all know, as bracket creep. LB721 recognizes the need for Nebraska to become much more welcoming to retirees. We continually find that our state is one of the top ten least retirement friendly states in the nation. Much of that is due to our current tax policy regarding retirement income. Only

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eight states continue to tax their residents' Social Security benefits to the full extent of the federal treatment of the benefits. We are also one of only eight states that provide no preferential treatment for military retirement benefits. We are one of only four states in the nation that allow no exclusions for pension and other retirement income. Our current policies make us far less competitive than retaining our talented retirees like our Chairman Hadley who has decided to stay here. LB721 also requires the Department of Revenue to acquire new technology to identify nonpayers of taxes lawfully owed. This is a critical component of this tax plan. People who dodge their tax obligations cause the rest of us to pay higher taxes as a result. By aggressively pursuing those who do not follow the law, millions of dollars can be recovered. Those dollars should be returned to the taxpayers in the form of comprehensive tax relief. I won't go on and on about this. In fact, I wish I only had a \$8 million fiscal bill on this; but mine seems to be just a little bit higher than that when I looked at it. But what I wanted to do and the goal of this bill is many different things, but as it comes down to it and we boil it down was to open up all the sections that we could look at and possibly use as a tool. I'm not saying my numbers are better or worse than anybody else's. They were put out there for a discussion and we certainly had discussions across the state all interim. And so it's a tool for us as a committee to modify if we choose. But I certainly don't begrudge using a different bill to facilitate what we're all looking for in some form of tax relief. But this is just another option. Thank you, Mr. Chairman. [LB721]

SENATOR HADLEY: Are there questions for...? Yes, Senator Hansen. [LB721]

SENATOR HANSEN: Thank you. Thanks for bringing this, Senator Janssen. I know it's pretty wide and it's pretty broad and it covers a lot of topics. My question would be about military retirement. What is the variety of ages of military retirees in this state? [LB721]

SENATOR JANSSEN: Well, I can tell you...and I believe there's actually a veteran here to testify, and I didn't call in a bunch of testifiers because I knew we'd be for awhile today, so I actually had some people not show up because I just wanted to again open up the statutes not knowing if we would. But if you used me, for instance, I joined the military when I was 18 years old. As I sit here today I'm 43, I believe. I could have retired at age 38 and I think I still have some productive work years left in me, and to be enhanced...or I guess to come back to the state would be helpful. I came back because I was from here, and that's compelling as well. It's not the end-all be-all. I don't think veterans really...myself being one, I'm not a retired one, but it's a consideration. But I think also family is a huge consideration in that, so it's not only the tax rate. But I just pointed out that that's one of the things that came up when we were going across the state. [LB721]

SENATOR HANSEN: But the point is, there's quite a variety of age when military folks do retire from 48 to 60.... [LB721]

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SENATOR JANSSEN: Sure, you could be as young as 37, I believe, and... [LB721]

SENATOR HANSEN: So what would you think of exempting military retirement after the age of 65? [LB721]

SENATOR JANSSEN: You know, I would actually prefer doing it earlier because a lot of times you're talking about some of the key work years for individuals, like if we used me as an example, if I had retired, I would have been 38; and that would have been a deciding factor in possibly moving my family to a different state or a state where job opportunities are available. And there's many factors, that's one of them. But I think we would be missing the boat--I'm a Navy guy--we would be missing the boat if we didn't exempt it upon retirement. [LB721]

SENATOR HANSEN: Okay. Thank you. [LB721]

SENATOR HADLEY: Any other questions for Senator Janssen? Seeing none, thank you, Senator Janssen. [LB721]

SENATOR JANSSEN: Thank you, Chairman. And thank you for staying here as a retiree. [LB721]

SENATOR HADLEY: First proponent. [LB721]

ERICK CASTILLO: Good afternoon, ladies and gentlemen. My name is Erick Castillo, E-r-i-c-k C-a-s-t-i-l-l-o. It was not my intention to actually be speaking here today. I'm here on tour from the Ogallala Chamber of Commerce leadership days, and we're touring the Capitol. I had a moment to speak with Senator Janssen about his LB721, and I can tell you by experience, I'm a 22-year Navy retired veteran, I had no intention of moving to Nebraska. I'm a California native. And when you go through retirement, one thing you go through is what's called Transition Assistance Program. And in that program they tell you which states are most beneficial to you as a veteran and that's where most everybody ends up. Most will end up in the state where they retire from, California or Virginia, because the children are there, they're settled and they're comfortable. But to get back to Nebraska, and I had five Nebraskans in my class and I told them it was a possible option that I might be going, because my wife is from Ogallala, only reason there (laugh). And they said, nope, we're going to go to Texas, we're going to go to Illinois, we're going to go to these states where my children have benefits and they're tax exempt; Wisconsin I think is another one. And so all things considered, you have that benefit as a veteran, the benefits to your children. And one other thing with the state of Nebraska, I've been here for two years now, is that the state of Nebraska can benefit with bringing back those people at 38, at 42, at 43, because they're highly skilled, highly educated, certified with the government. I'm a ballistics missile expert, Navy intelligence, I have a master's degree, certified with the

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Department of Homeland Security, FEMA, certified antiterrorism specialist. Why would you not even consider the military benefit of that bill, bringing these type of people with their families back to this state? That's all I have. [LB721]

SENATOR HADLEY: Are there any questions? Senator Schumacher. [LB721]

SENATOR SCHUMACHER: Thank you, Senator Hadley. And thank you for coming forward today. When they brief you as to desirable states, when they go through Nebraska's besides telling you it's a wonderful temperature in the winter, what...I mean, do they point out the cost of living, like in a state may--like Nebraska--be 10 percent less than some of the others; that in Virginia you may have to pay \$20,000 for your child to go to school? [LB721]

ERICK CASTILLO: Yes, sir. [LB721]

SENATOR SCHUMACHER: All that's laid out? [LB721]

ERICK CASTILLO: All that's laid out. You know, Veterans Affairs comes out, Disabled Veterans of America. All...I mean, we're briefed by about 30 people. It's a two-month course. So you basically have all these options in front of you. And these are senior enlisted and officers; these are people that are highly decorated; they're very intelligent and so they make very intelligent choices. None of the people that were in that class from Nebraska picked Nebraska. I picked Nebraska because my wife is from here and she wanted to come back. [LB721]

SENATOR SCHUMACHER: So it wouldn't matter what taxes were, right? [LB721]

ERICK CASTILLO: My wife...you know, happy wife, happy life. (Laugh) [LB721]

SENATOR SCHUMACHER: All right. Thank you. (Laugh) [LB721]

SENATOR HADLEY: If there are no other questions, thank you. [LB721]

ERICK CASTILLO: Yes, sir. [LB721]

SENATOR HADLEY: Next proponent? First opponent to LB721. [LB721]

MIKE MARVIN: (Exhibits 8 and 9) Good afternoon, Senator Hadley and members of the committee. My name is Mike Marvin, M-i-k-e M-a-r-v-i-n. I'm the executive director of the Nebraska Association of Public Employees, also known as NAPE/AFSCME. We are here today to oppose this bill. I have submitted my written testimony so I'm not going to go over that again. There are some issues that I think I need to raise that may not be in my testimony. The state directly just south of us, I spent the last two years down there

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working with the public employees there down in Kansas. They eliminated the corporate income tax. They cut the tax rates, the personal income tax rates in Kansas quite a bit. There was a lot of promised job growth that never occurred. You'll see a handout that I just gave you, "No jobs boom from Kansas tax cuts." If you'll note that those numbers came from the Kansas Department of Labor, not from an outside area. The promised job growth did not happen. The jobs that did come were low-income jobs. Gallup Industries, in their research department, recently rated a lot of the states on their jobs and quality of jobs. Nebraska came in ranked 29th. It is an index from 1 to 40, so; and Nebraska came in at a 29 on their index. The state of Kansas, who has gone through and done all these tax cuts and was promised all these things, came in at an 18. The lowest ranking state was West Virginia at 13 and Kansas was very close at 18. The Tax Modernization Committee did a lot of hard work, diligent work. We like the work that has come out of that committee. We think it's reasonable. We would urge you to reject this bill and not even let it out of committee. One other thing I would like to point out, as of this morning the Kansas Legislature still was waiting to find out what the courts were going to do with their schools, because they were not left with enough money to properly fund K-12 education. So if you want to look, several of you raised the jobs issue and things, and if you want to see what happened 150 miles down the road to Topeka, Kansas, there's your answer. So with that I would be happy to answer any questions. [LB721]

SENATOR SCHUMACHER: Any questions from members of the committee? Seeing none, thank you, Mr. Marvin, for your testimony. [LB721]

MIKE MARVIN: Thank you. [LB721]

SENATOR SCHUMACHER: Next. I guess we're on opponents now. Opponent. [LB721]

RODNEY VLCEK: Vice Chairman Schumacher, members of the committee, my name is Rodney D. Vlcek, R-o-d-n-e-y, middle initial D, V-l-c-e-k, and I am president and secretary/treasurer of the Nebraska State AFL-CIO. We want to thank Senator Janssen for bringing something forward, of taking the difficult task of trying to tackle this tough situation. But I am here to register our opposition to LB721. Our opposition to this bill is very simple: This will provide substantial tax breaks to those individuals who need it least at the expense of much-needed revenue for this state. I will provide a more detailed summary of our position on general tax policy on LB1097, but there is one point I'd like to make on LB721. This policy is exceptionally expensive. By fiscal year 2019-2020, the fiscal note estimates its annual costs at over \$838 million. This amount exceeds the total 2012-2013 TEEOSA allocation. In total, LB721 would cost the state more than \$2.8 billion in General Fund revenue by the end of the decade. It is impossible to assume that these costs would not come at the expenses of job training programs, state infrastructure projects, and state aid to education. In other words, where is the money going to come from? With that I would be happy to answer any

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questions that you may have. [LB721]

SENATOR SCHUMACHER: Senator Hansen. [LB721]

SENATOR HANSEN: Thank you. I didn't ask Mr. Marvin so I'll ask you. That's a pretty broad-ranging bill. Are you against all of the tax cuts,... [LB721]

RODNEY VLCEK: No, sir. [LB721]

SENATOR HANSEN ...everything? [LB721]

RODNEY VLCEK: No, sir. That's why we elect you to make those tough decisions for us. [LB721]

SENATOR HANSEN: Okay. It just sounded like you were in opposition to LB721, which included various different kinds of tax breaks. [LB721]

RODNEY VLCEK: Correct. [LB721]

SENATOR HANSEN: I was just wondering if you were just, in general, opposed to all of them. [LB721]

RODNEY VLCEK: No. Obviously, you know, we are for tax breaks for Social Security recipients in the state of Nebraska. We'd like to see something done with that. But we have to find out where the revenue is going to come for the state itself. [LB721]

SENATOR HANSEN: Okay. Thank you. [LB721]

SENATOR SCHUMACHER: Any other questions for Rodney? If not, thank you very much for your testimony. [LB721]

RODNEY VLCEK: Thank you, Vice Chairman. [LB721]

SENATOR SCHUMACHER: Next opponent to LB721. [LB721]

RENEE FRY: (Exhibits 10 and 11) Good afternoon, Senator Schumacher and members of the Revenue Committee. My name is Renee Fry, R-e-n-e-e F-r-y, and I'm the executive director of OpenSky Policy Institute. We are testifying today in opposition to LB721, a bill that would require significant cuts to our schools and other vital services, and would force property tax increases around the state to make up for the loss of state aid. In fact, the cuts made in LB721 would amount to cutting over 15 percent of the General Fund once fully implemented. The Tax Modernization Committee worked hard over the interim learning from experts and listening to Nebraskans. Among the main

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takeaways were that Nebraskans in both urban and rural areas want lower property taxes and that drastic changes to our tax code were not needed. This bill would do the exact opposite of the recommendations made by the committee based on staff research, expert presentations, and public input. The income tax cuts in LB721 would drain the state of revenue needed to lower property taxes; and furthermore, will cause property taxes to increase. This is because the \$783 million price tag on the bill would force cuts in state aid to schools and other localities; and our research shows that when state aid to local governments goes down, property taxes go up. This would be particularly hard on residents in rural Nebraska who, as you see in the charts we've handed out, pay more in property taxes than urban residents. It's also true that as property taxes have been increasing, rural residents are now paying more property and income taxes combined than urban residents. This is because rural families pay more in property taxes than their urban counterparts, and urban families pay more in income taxes than their rural counterparts. So reducing income taxes at the expense of property taxes is likely to drive the tax burden for rural families up even further under LB721. LB721 and other measures to cut income taxes in recent years have been made in the name of economic growth despite the fact that academic research fails to find a consensus on whether tax cuts and growth are linked. For its part, Nebraska has economically outperformed most states with lower or no income taxes. As shown in the charts I handed out in the LB1056 hearing, there is also the reality that LB721 will require cuts to schools, roads, and other key components of our strong economy, which makes it likely that the bill would actually hurt, rather than grow, our economy. LB721 is similar to the massive cuts made in Kansas in recent years as, like those measures, the bill makes no attempt to offset the revenue losses it would create. In that way, LB721 would be more damaging than last year's proposals to eliminate and cut income taxes as those bills attempted to replace the lost revenue. Kansas' story can serve as fair warning to Nebraska as they've blown a hole in the state budget, as you heard, and left Kansas on the losing side of a lawsuit, finding that they are not adequately funding K-12 education. New research also shows that since Kansas enacted income tax cuts in the name of economic growth, the state has trailed four of its five neighbors, including Nebraska, in job growth. In terms of taxes, we recently compared Nebraska to eight Midwestern states with similar economies and tax structures and found Nebraska's taxes are relatively low. Compared to the other states that don't have major oil or gaming, a middle-class family would pay lower taxes in Nebraska than all but just one comparable state. It also should be noted that LB721 is not aimed at the middle class. As seen in the handout, the majority of the tax cut is reserved for the state's highest earners and it's quite possible that the property tax hikes caused by the bill would wipe out the income tax cuts most middle Nebraskans would get. While LB721 is not likely to be able to deliver on its promise of economic growth and is, in fact, more likely to have the exact opposite effect, the state could help spur growth by increasing our investments in education, venture capital and technology, and job training programs. Supporting these initiatives would be a more prudent use of taxpayer dollars than betting on the tax cuts proposed in LB721. Thank you for your time and I would be

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happy to answer any questions. [LB721]

SENATOR SCHUMACHER: Any questions for Ms. Fry? Senator Hansen. [LB721]

SENATOR HANSEN: Thank you. On your second page of your written testimony, you mentioned that compared to the other states that don't have major oil or gaming, a middle-class family would pay lower taxes in Nebraska. Should we have gaming in this state? [LB721]

RENEE FRY: We have not taken a position on gambling. It's not an issue that... [LB721]

SENATOR HANSEN: Any personal position? [LB721]

RENEE FRY: I don't have a personal position. We just have not had the ability to do the research into that issue. We've been asked to do that before and just haven't had the capacity to do it yet, but. [LB721]

SENATOR HANSEN: Okay. Thank you. [LB721]

SENATOR SCHUMACHER: Any other questions? Thank you for your testimony. [LB721]

RENEE FRY: Thank you. [LB721]

SENATOR SCHUMACHER: Further opponents on LB721. [LB721]

MARK INTERMILL: (Exhibit 12) Thank you, Senator Schumacher and members of the committee. My name is Mark Intermill, M-a-r-k I-n-t-e-r-m-i-l-l, and I'm here today representing AARP. I'm also handing around statements from Voices for Children and Nebraska Appleseed. One of the central principles related to taxation for AARP is adequacy of state revenue to meet priorities. And while we appreciate Senator Janssen introducing this bill, because it gives us kind of a comprehensive view of what the possibilities are in terms of tax reform, what we have noted from looking at the fiscal note and looking at projections of revenue that we have available to us, is that it does substantially reduce the amount of revenue that the state would have to meet those priorities. On our statement I've included a chart that shows that in FY '15 it would be a 2.9 percent less revenue than had been anticipated, and that accelerates up to 16.3 percent, factoring in both the revenue loss and the additional spending on the property tax credit. We have supported elements of what is in LB721. We would like to see some degree of Social Security benefit tax relief, and I think property tax relief is also something that our members are interested in. But I think we need to make sure that it's done in a way that assures that the state can meet those priorities, those ongoing needs that we need to meet in terms of education, healthcare, and the rest of the services that

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the state provides. So at this point we oppose LB721 and would urge you to indefinitely postpone it. And I'd be happy to try answer questions. [LB721]

SENATOR SCHUMACHER: Any questions? Senator Hansen. [LB721]

SENATOR HANSEN: Okay, I'll try to make this quick. You mentioned, and I can't see it in your written testimony here, but you made mention to the we couldn't afford the increase in the property tax relief fund. Yet everywhere we went in the state, it doesn't matter residential, it doesn't matter commercial, it doesn't matter agriculture, everybody was wanting property tax. This is the most level, equal tax that we can return. What's your comment? [LB721]

MARK INTERMILL: And I probably didn't make myself clear. I was saying that the spending that I've included in the chart includes both revenue cuts and additional spending, part of which is the property tax credit, so... [LB721]

SENATOR HANSEN: Okay. Do you favor that part of LB721? [LB721]

MARK INTERMILL: I think within the limits of assuring that it's affordable and that we can sustain it, yes. [LB721]

SENATOR HANSEN: Okay. Thank you. [LB721]

SENATOR SCHUMACHER: Any other questions? Seeing none, thank you for your testimony. More opponents, LB721. [LB721]

JASON HAYES: (Exhibit 13) Good afternoon, Senator Schumacher and members of the Revenue Committee. For the record, I am Jason Hayes, J-a-s-o-n H-a-y-e-s. I am here today representing the 28,000 members of the Nebraska State Education Association. NSEA opposes LB721. And I will keep my comments brief. I have submitted written testimony. NSEA is concerned about the large fiscal note on the bill and how that revenue loss would impact state aid to education. We ask the committee to ensure that any tax modifications made do not negatively affect state aid to education funding and a local school district's ability to provide a quality education to our students. And I thank you for your time. [LB721]

SENATOR SCHUMACHER: Thank you for your testimony. Any questions? If not, thank you. [LB721]

JASON HAYES: Okay. Thank you. [LB721]

SENATOR SCHUMACHER: Further opponents to LB721. [LB721]

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RICHARD LOMBARDI: (Exhibit 14) Members of the committee, my name is Richard Lombardi, R-i-c-h-a-r-d L-o-m-b-a-r-d-i. I'm testifying on behalf of the Center for Rural Affairs. There are two written statements that have been developed by the center deeply concerned about the adverse impact to our rural communities by the depth of both the cuts proposed in both LB721 and LB1097; so I'd like to have entered that into the record. [LB721]

SENATOR SCHUMACHER: Any questions for...? Senator Hansen. [LB721]

SENATOR HANSEN: Thank you, Rich. I'll ask you the same question. Does the Center for Rural Affairs, the people that make up that group, do they benefit from the property tax relief fund equally to residential and commercial? Do they think that's of benefit? [LB721]

RICHARD LOMBARDI: I think that there has been an ongoing concern, Senator, about the targeting that there would be. That they would have an interest of looking at that type of tax relief but having it more targeted. [LB721]

SENATOR HANSEN: Can you expand on that just a bit? [LB721]

RICHARD LOMBARDI: Nebraskans. [LB721]

SENATOR HANSEN: So if I leave the state and rent my ranch out, I get no tax relief? We do that...I mean, not me, I'm not going to do that, but there's a lot of farmers do. They go somewhere where the kids left, their grandkids are, where the climate is warmer. And they continue to own the land but you would suggest that they get no property tax relief. [LB721]

RICHARD LOMBARDI: I think that there is...I think the targeted concern of making sure that not only Nebraskans benefit but the issue of sustainability I think is an equal concern. But I would say that the targeting at folks, much as one of the committee bills on the tax modernization of trying to target based upon the percentage of your income that is having to go toward the payment of those taxes. So I think that it would be supportive of a circuit breaker type of an approach targeted to Nebraskans, and that it would be a sustainable. [LB721]

SENATOR HANSEN: So no out-of-state landowner should get a tax break then? Basically no Ted Turner,... [LB721]

RICHARD LOMBARDI: I can go back to them, Senator, but I sense that that's... [LB721]

SENATOR HANSEN: ...no Mormon Church. [LB721]

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RICHARD LOMBARDI: Yeah. I sense that that's been one of the issues that was brought up. I think the long-term sustainability is also an equal concern. But I do think the targeting issue has been a longstanding issue, and I think that there's probably a preference from the center to target using a circuit breaker type of approach that has been contained in some other legislation. [LB721]

SENATOR HANSEN: Okay, thank you. [LB721]

RICHARD LOMBARDI: Thank you, Senator. [LB721]

SENATOR SCHUMACHER: Any other questions? If not, thank you. Any further opponents to LB721? [LB721]

TODD MERCURAL-CHAPMAN: (Exhibit 15) Good afternoon. My name is Todd Mercural-Chapman, M-e-r-c-u-r-a-l hyphen C-h-a-p-m-a-n. I represent the Nonprofit Association of the Midlands, which is a statewide membership organization representing nonprofits of all sizes and missions, and we have 250 member organizations. We are opposed to LB721, and we're also providing written testimony in opposition to LB1097, both for the same reasons. Income tax is vital to a balanced revenue system. It provides over one-half of all state General Fund revenue. Such a gouge in revenues would inevitably reduce essential services that all Nebraskans rely on. Nonprofit organizations that provide safety net services have been reliant on government along with charitable support to fund their efforts. It's important that government provide the balance necessary through an equitable tax code and sufficient tax revenues. Nebraska has already suffered a decade of cuts to key services like education and healthcare, services for which demand will not decrease because state funding for them has decreased. Nebraska needs a tax system that invests in services that average families rely on and that boost our economy, namely public education, safety, and health services. We have been and will continue to educate nonprofits, board members, and donors on how this bill would impact our community. Please rank the impact on services that nonprofits provide in partnership with government highly on your criteria as you consider the tax code's ripple effects on your constituents at all income levels and the ability of state and local governments to continue delivering the services which make Nebraska a great place to live. Thank you for your time. [LB721]

SENATOR SCHUMACHER: Any questions for Todd? Thank you for your testimony. [LB721]

TODD MERCURAL-CHAPMAN: Thank you. [LB721]

SENATOR SCHUMACHER: (Exhibits 16, 17, 18, 19, 20 and 21) Further opponents, LB721? Seeing none, anyone wishing to testify in the neutral capacity? Seeing none, the record should reflect that these items are in support: Jay Rempe, Nebraska Farm

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Bureau; Scott Merritt, executive director of the Nebraska Corn Growers. Tessa Foreman of the Board of Directors, Nebraskans for Peace, in opposition; as is Al Guenther who represents himself; Terry Werner, the National Association of Social Workers; and Richard Holland of the Holland Children's Movement in opposition. No letters in the neutral position. Senator Janssen, you're welcome to close. [LB721]

SENATOR JANSSEN: Thank you, and I will be quick. I appreciate the testimony. Again this is, I think, gives us a base to modify and move forward. There's certain aspects, I appreciate the question, Senator Hansen, that there are aspects to this, it's so broad that people liked it, probably just didn't like most of it in certain situations. So pretty typical for a Janssen bill actually. I would specifically like to note OpenSky and the NSEA and thank them for the professionalism of contacting me prior to the hearing and letting me know about their opposition. Thank you. [LB721]

SENATOR SCHUMACHER: Any questions? Thank you, Senator Janssen. The next item on the agenda, LB902, Senator Crawford. Well, there she is. Welcome to the Revenue Committee. [LB721]

SENATOR CRAWFORD: (Exhibit 22) Thank you, thank you. And good afternoon, members of the committee. It's great to be here with you this afternoon. My name is Sue Crawford, C-r-a-w-f-o-r-d, and I represent the 45th Legislative District in Bellevue, Offutt, and eastern Sarpy County, and I come before you to speak on LB902. The average age of a military retiree is 43 years old. These retirees leave the military with a second or a third career ahead of them and the offer of one more paid move by the military on the table. What's more, many have moved multiple times over the course of their military career. In fact, only 9 percent of service members stay at one assignment for four years or more. After moving multiple times throughout the career, many decide once again to relocate to a state that has some kind of tax benefit for their retirement benefits. Retiring military members who are deciding where to locate are given a list of states with retiree tax benefits. Nebraska, with its current tax system, does not make that list or that map. A recent study of migration from 1940 to 2000 confirms that veterans migrate more than nonveterans. I think this is a real key point because I know that as a committee you've seen a lot of research on migration and migration related to taxation, and it's important to note that military retirees are different than other retirees in that sense. From what we know from studies, they move more frequently, more willing to move more frequently, and some of the studies that you have seen have not included military retiree as one of the categories in the study, and so that's important to know I think as you're thinking through all the various tax options you have in front of you. Many of the military retirees have security clearances and other relevant experience that position them well for defense contracting work upon retirement. Others bring experience and discipline to that next job. We want to make sure that next job is in Nebraska, to build our state's skilled work force, but also grow our population and tax base. As important as it is to retain this skilled work force, it is equally important that we keep our commitments to

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Nebraska schools and maintain our state's infrastructure. You've just heard some stories earlier today about some of the things happening in Kansas, and I don't think that we want to repeat those here. Those are assets that help to attract and retain many families to our state and our communities, and allow us to rank high on other factors as a good place for military retirees to live. So a targeted retiree tax credit, like LB902, expands Nebraska's economy and tax base while maintaining sufficient revenue to keep the services that currently allow the state to rank well as an attractive place for all of us to live. LB902 is carefully targeted in three ways. First, exemptions are tied dollar for dollar to income earned in the state of Nebraska. Two, the bill includes exclusion maximums and income qualifications to preserve the progressivity of our income tax here in Nebraska. Finally, the caps found in LB902 are competitive with caps found in neighboring Colorado. Because of these targets, the fiscal note for this bill should be about \$1 million to \$2 million, and actually these were really modeled off of LB238 last session, which included teachers and first responders and other folks; and we were intending to model that and pull it back just to military retirees, and the projection was about \$1 million to \$2 million. And after some discussions between Fiscal and the Revisor's Office today, we think that what happened is that we just...the bill needed to have the language in it, that it doesn't include Social Security. So I think what the fiscal note does now is it's reflecting that they would get dollar for dollar match off of any Social Security they got, as well as dollar for dollar match off of other income, and that's why it's a higher fiscal note. So I have an amendment for the committee that takes care of that issue, that should push it back to where we expected it to be, between \$1 million and \$2 million. And, in fact, the expectation would be closer to \$1 million. Ashley Lynn's; Home Instead Senior Care; Vet Defense Services; The Garrett's Group; RWR Innovations; Suit up! Tuxedos; and Bellevue's Chick-fil-A are all examples of businesses that military retirees and their family members started in the Bellevue area. These businesses in turn provide jobs for their employees, further adding to our tax base and our economy. And we have a few people here today. We didn't beat the bushes to round a lot of people up, because I know that you've heard these arguments multiple times from people that I've invited here before. (Laugh) So we have, I think, just a few people that I know of that came. Other people may come obviously, but just invited a few people to come and share their stories with you today. So I'm happy to answer questions now or I'm happy also...I'll be here at closing if you would prefer to ask questions then. [LB902]

SENATOR SCHUMACHER: Senator Harr. [LB902]

SENATOR HARR: Thank you, Chairman Schumacher. And thank you, Senator Crawford, for coming. We heard a lot of testimony both from your bill and Senator Janssen that our military have a lot of training and they bring a lot of good things to the state. My question is, why do we favor retired military over just, say, honorably discharged? I think we could all at least make the argument that Senator Janssen coming back to this state has been an asset. So why do we favor the retired versus the

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honorably discharged? [LB902]

SENATOR CRAWFORD: Well, in this room the reason that we do that is that the retired have income that we can treat favorably in our tax code. So, I mean, we could talk about what your different economic development tools are for recruiting and retaining a tax force. In this case, because this is the Revenue Committee, the tool we're talking about is the retirement income, and those are the people that have that retirement...that have that income. So other bills, like the bill we passed today, Senator Watermeier's bill that's a veteran preference bill, and the in-state tuition bill we passed on General File today, those are other tools to try to help us retain and recruit veterans who haven't been career veterans all the way to retirement. [LB902]

SENATOR HARR: Okay. Well, then that leads to my next question is, there are a whole lot of veterans bills. We debated yours this morning. I know there was one in Business and Labor earlier this week. We have this today. We have Senator Watermeier's. What criteria should we use, number one, to determine if a bill is good or not as it applies to veterans; and then, number two, when is enough, enough? [LB902]

SENATOR CRAWFORD: Good question. I believe the reason that you're seeing so many veterans bills right now is that we are projected to see about 1 million people leaving the military with work force reductions in the military. And so that's the reason that these bills are so timely in our state and other states. You may have seen Iowa doing several bills because as you're looking out ahead you're seeing this huge group and so that's why I think it's so timely now. So...go ahead. [LB902]

SENATOR HARR: But the question is why...what criteria should we use and when is enough, enough? [LB902]

SENATOR CRAWFORD: Sure. Well, I think one key criteria is to ask what is the benefit that they will bring to the state and what is the cost to bring that benefit to the state. And so that's why in this case, for this bill, for example, we tried to craft it very carefully to provide a benefit that provides an attractive recruiting tool to bring that benefit to the state but tries to keep it a fairly minimal cost for...and so I think that's the question is, how much...how many you recruit to the state, what benefit they bring to the state, and then try...as with any economic development tool, trying to figure out and think about what the costs are and making sure that the benefit you're expecting is worthwhile compared to the cost. [LB902]

SENATOR HARR: And so that's when enough is enough? [LB902]

SENATOR CRAWFORD: I'm not sure how to answer the question about when enough is enough. I think in each case we're always looking to see what our economic development opportunities are in the state. And right now veterans bills are an important

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part of economic development because right now we're getting ready for a huge reduction in force. [LB902]

SENATOR HARR: Well, let me ask you this way then. Over the lifetime, a person is going to change their career an average of seven times. Should we offer a tax break to someone who has prior training in education, whether that be formal through a college or through job training? Should we offer them an economic incentive for the first year or two that they move to this state from another state? [LB902]

SENATOR CRAWFORD: I think that's a worthwhile question. That would be a different bill though. I mean,... [LB902]

SENATOR HARR: Well, so how do I measure which is more important, a veteran versus the other? Which should I look to? [LB902]

SENATOR CRAWFORD: I think in each case you should be looking to what the expected method is, why is it important to do it now, and what is the cost. And if we have a situation where we feel that there's some other...and again, there's some other situation that's changing where all of sudden we have a flood of another kind of retiree that's particularly important to our state, then that might be the time to make sure you're tracking that, when we have...and we have at different times, I think, focused on different areas. So, for example, I think right now we have a lot of attention on early childhood. You could say the same thing: When is enough enough? I mean, right now, we're recognizing that's a key area to focus on now. And next year, two years from now, we might focus on something different. We might be focusing on loan repayment for our education students. [LB902]

SENATOR HARR: Okay. Thank you. [LB902]

SENATOR SCHUMACHER: Any other questions? I just have a couple here. You know, we, particularly in the last couple of years in this committee, we've heard all kinds of things. You do a special deal here and, man, it's going to be coming up roses economically. And you never know if you're getting a payoff or you're just getting hoodwinked. And is...so the statistics that you're talking in terms of, how would we know...assuming we pass this bill, how would we know that we've scored a hit that's worthwhile? [LB902]

SENATOR CRAWFORD: Good question. Well, I believe since we would actually be offering this credit, we would actually be able to tell from the Department of Revenue how many people are taking this credit. So we should be able to know how many people are taking the credit. And then we can also be tracking what's happening with our ability of our employers to find skilled workers. So I think we can find measures to track and help us to see if we think actually we are bringing people to...if people are

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using this credit and if we see similar changes in terms of population, changes in terms of work force. Those are all things that we can track. The question that is hard to answer in any of these cases is the but for question, you know, that we always try to figure out and ask is, you know, how many might have moved here otherwise. That's the harder question to ask. But we can definitely look before and after, and we can look to see if how many...again, how many people are taking the credit and what difference we're seeing in terms of population growth and what difference we're seeing in terms of work force. [LB902]

SENATOR SCHUMACHER: Do we have any baselines that we can say, okay, these are the baselines that we're looking at, here's how many military people come in, here's how many military people are now leaving, and so we have a baseline; then say we do this for three years and plan to sunset it unless we see a result that we're pleased with. Is that type of statistical capability available to us or is it going to be one of these things, golly, gee whiz, we think maybe we did good and we're really afraid to stop it, but we really don't know? [LB902]

SENATOR CRAWFORD: Good question. In terms of work force openings and in terms of population in the state of Nebraska and people moving in and moving out, I think we would have baselines on those, knowing...and again, I guess in terms of we will be...since they're claiming the credit, it gives us a way to keep track of who they are so we'll have an idea of how many are coming in. In terms of figuring out how many people are coming to our state who are military people right now, I'll have to get back to you in terms of...we've tried to track that down a couple times. We've had some challenge doing that, and so I don't know for sure how to do that, but we'll keep working on that. But we could definitely again talk about...you could talk about population growth, you could talk about work force changes before and after this window, and you could find out how many people are using this benefit, and you can then see if there's growth in both of those things before and after, definitely. It would be even more effective to get strong baseline figures too. [LB902]

SENATOR SCHUMACHER: Would you have an objection to putting a three-year fuse on the experiment? [LB902]

SENATOR CRAWFORD: I would be willing to talk about that and think about...I think we would also...we would be happy to talk about that or talk about adding measures to it and those kinds of things. [LB902]

SENATOR SCHUMACHER: Thank you. Senator Harr. [LB902]

SENATOR HARR: Just to follow up. You obviously care about our veterans quite a bit and you've been thinking about this bill for a while, I assume. Is that correct? [LB902]

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SENATOR CRAWFORD: Yes. [LB902]

SENATOR HARR: Probably since before, let's say, early November? [LB902]

SENATOR CRAWFORD: Yes. [LB902]

SENATOR HARR: Okay. [LB902]

SENATOR CRAWFORD: We've been working on other things too, so right. [LB902]

SENATOR HARR: Yeah. But it would have been nice to have a fiscal note before 24 hours ago so you could have made those changes. [LB902]

SENATOR CRAWFORD: Well, actually we thought we were...yeah, I suppose so. We thought we were...we had asked for projections and felt pretty comfortable where we thought the projections would be, so...but. [LB902]

SENATOR HARR: And you were able to make changes within 24 hours, right? [LB902]

SENATOR CRAWFORD: Oh, yeah. [LB902]

SENATOR HARR: All right. Thank you very much. [LB902]

SENATOR CRAWFORD: So the Revisor's Office was very helpful and the Fiscal Office was very helpful in helping us figure out what happened and make changes. Thank you. [LB902]

SENATOR HARR: Thank you. [LB902]

SENATOR SCHUMACHER: Any other questions for Senator Crawford at this time? Seeing none, will you be staying to close? [LB902]

SENATOR CRAWFORD: I will. [LB902]

SENATOR SCHUMACHER: All right. Proponents now on Senator Crawford's bill, LB902. [LB902]

RICHARD BAIER: (Exhibit 23) Good afternoon, Vice Chairman Schumacher, members of the committee. For the record, my name is Richard Baier, R-i-c-h-a-r-d B-a-i-e-r. I appear before you today on behalf of the Nebraska Chamber of Commerce in support of LB902. I am also representing my friends at the Greater Omaha Chamber as well as the Lincoln Chamber of Commerce. I do want to thank Senator Crawford for introducing this bill and for thinking creatively about addressing this issue. So I appreciate that a

great deal and, as Senator Harr suggested, for her support of our military community. We recognize that you've seen this concept a great deal in multiple forms over the last several years before this committee. I think I've been here and testified in support of it a couple of times. But we do think what's before you today is a little bit different and we believe it helps us tackle an issue. We're sort of playing from behind the eight ball. There are 39 states that currently have no income tax or provide some kind of preferential treatment for military retirees. And I have included a listing of those that was actually put out on a military blog that I follow, several weeks ago. So it will give you an idea of some of the folks and some of the things that we're competing against. Quite simply, these 39 states have financial reasons for these retired working veterans to live or stay in their states, and we are not competitive. You can change that by supporting this legislation today, and we would ask you to think about this commonsense solution as something that we can look at moving forward. As you know, the Nebraska Chamber has been very concerned and talking long term about availability of labor in our state, and that's why, Senator Harr, some of those bills are showing up; and I had a chance to see you earlier this week on a related bill. In a recent study of ours, found that nearly half of our survey respondents had experienced some difficulty in hiring qualified employees during the past year. More than one in four respondents said this lack of labor was actually the key issue limiting their economic growth. You couple this what's going on in our baby boomer situation across the state, and it only compounds our problem. I would point to folks like Union Pacific and Nebraska Public Power District who are both large members of ours, but also are experiencing some significant work force challenges as many of their employees are nearing retirement age. As Senator Crawford mentioned, we're also looking at budget sequestration, financial problems, troop demobilization, and a variety of other issues that are really causing and creating both a challenge and an opportunity: a challenge for the military but an opportunity for Nebraska to be able to capture those folks are part of our work force. The chamber recently unveiled a military development strategy and work force recruitment strategy that includes plans for going to job fairs around the country. And I've included a press release for you. We actually have a group of 12 or 13 of us that will be traveling to Fort Sill, in Lawton, Oklahoma, next week, to try and target military veterans and bring them to our state. As we look at the next generation and try and build Nebraska for the future, we would encourage you to begin to help us address this work force solution by supporting LB902. And before I take questions, I might mention a couple of things to some of your earlier questions. In terms of that baseline issue, right now, Senator Schumacher, we have 14,407 people who are active Department of Defense military retirees in this state; and that's put out on an annual or every other year census from the Department of Defense. So that's one of the things that we would be able to look at. It tracks it by state, by age brackets. We'd also be able to do a track and see if we're having an impact in that working age range as well. The other thing, Senator Harr, to your comment on why these folks. I think Senator Crawford did a nice job talking about, number one, their age. You know, they come in at 42, 43 years old as a retiree. I have a good friend of mine who was in our wedding is actually getting ready to retire. He's

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going to be 44. He's kind of a long-termer; but he comes with an engineering degree, and I can tell you, he's getting a phone call or an e-mail from me periodically about looking at opportunities back in Nebraska. The other thing from our perspective that's important is as we begin to look at what do those folks bring with them, not only do they bring skill sets, they bring in self-discipline. They've been through the process of going through random drug tests, all of those kinds of issues. And then finally, they bring in a lifetime of benefits, and so also in terms of that social service piece of this, that's important as well because they are able to take advantage of VA services and TRICARE as well. So those are strong benefits. Senator, I like your option about the test process. I would tell you I'm not sure I'm excited about three years, but five years might make a better process because it's going to a year or two for the word to spread across that military community. So with that I would be happy to take any questions that you might have. [LB902]

SENATOR SCHUMACHER: Senator Hansen. [LB902]

SENATOR HANSEN: I had one. I'm sorry I didn't catch the number. How many on this, you call it baseline information; how many? [LB902]

RICHARD BAIER: 14,407 living in Nebraska right now that receive Department of Defense retirement benefits. [LB902]

SENATOR HANSEN: Fourteen thousand how many? [LB902]

RICHARD BAIER: 407, I believe. [LB902]

SENATOR HANSEN: 407. [LB902]

RICHARD BAIER: I may be a little backwards. It might be 740, it might be 407. It's been awhile since I've looked at that number, but. [LB902]

SENATOR HANSEN: Thank you. [LB902]

RICHARD BAIER: You bet. [LB902]

SENATOR SCHUMACHER: Any other questions? I've just got a couple. Now how many new...do you know how many new retirees that might be looking at Nebraska? I mean, something to test. Okay, right now, we're hitting at the 2 percent level. Okay, we implement this little experiment, and lo and behold, we are hitting at the 2.1 percent level. Well, it's no big deal; it's not worth it. But what if we hit at the 5 percent? So if we have something to exercise judgment, is that possible to generate those statistics or is that just all back in the world of conjecture? [LB902]

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RICHARD BAIER: Well, I think there's some ways we can try and tackle it, Senator. I did meet last week with the transition office down at Offutt. I mean, that's kind of our gauge as to how many of those folks are we keeping. Those are folks that already here, they're established, they have families in many cases, their spouses have careers. Their transition office is telling us right now their best guess is that we keep between 30 and 40 percent of those in Nebraska when they retire out of the system. [LB902]

SENATOR SCHUMACHER: Now this particular benefit, this would extend out to the 14 people...or 14 people...14,000 people who already camped out here, is that correct? [LB902]

RICHARD BAIER: Well, interestingly, the way this bill is set up it would to some of them. The way that Senator Crawford crafted the bill and at least the way that I read it and maybe somebody with more tax knowledge than I have is going to tell me differently, but what you are able to do is offer basically a tax credit to offset anything that you earn back in that private sector. So it's actually a person that retired from the military and they have to be back working at another opportunity in Nebraska. It would not benefit people like my father-in-law who spent 22 years in the Navy, retired in Alliance. He called me when this went through and he saw it. He would not be eligible to take part in that. So it does separate and really attack, in my mind, what is the key issue, and that is how do we take those veterans and move them into our private sector work force to help deal with our work force shortage. [LB902]

SENATOR SCHUMACHER: But there's some of these that are here already that would be getting it. [LB902]

RICHARD BAIER: There would be some. [LB902]

SENATOR SCHUMACHER: And that's a no net gain on those because they're here. [LB902]

RICHARD BAIER: That's correct. That's correct. [LB902]

SENATOR SCHUMACHER: And so...okay, I think I understand that. Any other questions? Yes, Senator Harr. [LB902]

SENATOR HARR: Just quickly, how many...we have a fiscal note that's probably about \$1.5 million or \$2 million. How many individuals do you foresee this bill, if it were to pass, moving to Nebraska? [LB902]

RICHARD BAIER: Senator, I don't know that I have a very good number for you. I'd like to say an awful lot. I mean, I would hope it would be thousands, because as I talk to employers across the state of Nebraska and they go to places like Columbus where

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they're saying I have 700 unfilled job openings, I hope it's thousands of people are able to take advantage of this. And as we look at long-term policy in this state, one of the things we haven't always thought a lot about is what do we put in place to make sure that we're attracting population and encouraging people to move here as opposed to some of the things we've done to actually encourage some of our brightest, best and brightest, to leave the state. This actually takes a little different turn. [LB902]

SENATOR HARR: Okay. Thank you. [LB902]

SENATOR SCHUMACHER: Any other questions? Thank you for your testimony. [LB902]

RICHARD BAIER: Thank you. [LB902]

SENATOR SCHUMACHER: We are still on proponents, LB902. [LB902]

DANIEL DONOVAN: (Exhibit 24) Senator Schumacher and members of the committee, my name is Dan Donovan, D-o-n-o-v-a-n. I'm a retired colonel from the Air Force, and I represent the Heartland of America Chapter of the Military Officers Association of America. I have been a Nebraska resident now for 30 years. The Air Force brought me to Nebraska in 1982, I retired in 1988, and then worked for two great Omaha companies: First Data and TD Ameritrade, First Data for six, TD Ameritrade for 12. And since 2008, I have been a volunteer counselor at SCORE, formerly known as the Service Corps of Retired Executives. It's an organization that helps people start businesses. I became chairman of that SCORE chapter in 2009, for two years; and in 2011, I became president of our MOAA chapter. Of the 14,000 veterans in Nebraska, more than 2,400 are MOAA members, and approximately 250 of them from across the state are part of our chapter. I know that everyone on this committee has heard testimony on other tax-related bills and probably on multiple occasions that our Nebraska income taxes are higher than the surrounding states. Retiring military members, as we've heard already, are well-aware of this fact, and it's for quality of life reasons that family considerations, education, and many others, some of us do choose to remain here. For many others the balance goes the opposite way. Despite recognizing what a great place Nebraska is to live, the taxation was too great and they opted to leave. I know that it's the quick response that this is only anecdotal information and it's very hard to verify. There is no empirical data that I'm aware of to support any kind of exodus of retiring military. I have heard testimony on other occasions in this room where retiring military members have stated that the week they retire they are moving to Missouri or they are moving to Iowa or they're moving to Colorado. I've heard the same thing from my classmates, my other coworkers when I was in the service. Last month, a key member of our chapter board, MOAA chapter board, a retired Army major informed me that he is moving to Missouri this summer when his wife retires from her job. He expects his disposable income to increase by at least \$5,000. The real

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beneficiary of LB902 in my mind is the added economic value to Nebraska. In my civilian career I worked with and I hired several veterans. As a SCORE counselor, I worked with more veterans. And the characteristics they have, they're generally technologically savvy, they know how to work as part of the team, and ultimately, they know how to get things done. They know what their mission or their objective is, how to do the necessary planning and how to make necessary adjustments; in short, how to execute a plan. I started to write my testimony over the weekend, and there was an article in Monday morning's Wall Street Journal written by Michelle Obama. The headline was "Construction Companies Step Up to Hire Veterans," and includes the statements: The CEOs we have spoken to have been consistently impressed with the hires, reporting that veterans are some of the highest-skilled, hardest-working employees they've ever had, and that veterans are resilient, adept at building and leading teams, comfortable with diversity, and able to handle uncertainty. I am here to express support for Senator Crawford's LB902. This information also supports a portion of Senator Janssen's LB721, which, in fact, would be of greater benefit to the members of our chapter. If the Unicameral were to pass Senator Janssen's bill, Senator Crawford's bill would be superfluous. If, however, LB721 is to be rejected, Senator Crawford's bill is a worthy first step. By retaining more military, LB902 should foster economic growth here in Nebraska. And that's my testimony, sir. [LB902]

SENATOR SCHUMACHER: Thank you very much. Senator Harr. [LB902]

SENATOR HARR: Thank you. And thank you for coming and thank you for your service to our country. And I might be asking the wrong person and if I am, I'm sure Senator Crawford will hopefully be able to answer this. Do you know what the cost per person is for this policy...for this bill? [LB902]

DANIEL DONOVAN: Sir, I was like you. I saw the cost on the...on-line last night. And I do not know what the cost per person is. You know, I don't know if there's a cost. I think there's a revenue...a net revenue gain because if you keep someone in the state who is going to leave the state, the state gets that same amount of money as if he had stayed, plus he gets the benefit of the working spouse and possible children of the veteran or the retiree. [LB902]

SENATOR HARR: And the liability of the children. [LB902]

DANIEL DONOVAN: And the liability. Sure. [LB902]

SENATOR HARR: Okay. Thank you. [LB902]

DANIEL DONOVAN: Sure. [LB902]

SENATOR SCHUMACHER: Any other questions? I just have one. It's not directly

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related to the revenue part of this, but it seems like part of this issue arises out of the fairly young age you can retire from the military. What gives rise to that policy? I mean, you know, you get two or three careers, maybe...and it's not like we have a whole Army full of foot soldiers anymore. What gives rise to that early retirement? [LB902]

DANIEL DONOVAN: Well, Senator Schumacher, as Senator Janssen testified earlier, you know, you can retire at 20, and people can come into the service as young as age 17 and possibly 18. And if they...they can possibly earn their...get themselves promoted into the officer ranks and retire after 20 years. Or in my case, I retired...I was 47 when I retired. I had 26 years as a commissioned officer. [LB902]

SENATOR SCHUMACHER: But, I mean, if you were a truck driver in the civilian world, you would have to work much longer; and, in fact, they do. [LB902]

DANIEL DONOVAN: Well, sir, that's true. And a truck driver is very hard work. But I think the demands on the military, where you have to move people, you know, as we heard earlier testimony, the average tenure on a station is four years. The family separations, the deployments, the getting assigned to Washington, D.C. I was assigned there when the interest rates, the mortgage interest rates, were at 16-17 percent. I mean, there was a lot of cash. You don't have the opportunity to build a home that you would have if you were a trucker. [LB902]

SENATOR SCHUMACHER: Any other questions? Senator Pirsch. [LB902]

SENATOR PIRSCH: Thanks for your testimony here today. I do note in some of the handouts that were previously provided us by the Chamber of Commerce, that they talk about 13 states that exempt specifically military retirement pay. Among those include, I think very comparably, Kansas. Do you know when that was done? Has that been a longstanding exemption or is that...? [LB902]

DANIEL DONOVAN: I don't have the exact dates (inaudible), Senator, but I think it's more than 13 states exempt all. I believe it's... [LB902]

SENATOR PIRSCH: I think there's some states that don't have any income tax whatsoever. [LB902]

DANIEL DONOVAN: Right. But it's much more than that. [LB902]

SENATOR PIRSCH: Okay. I guess what I'd be interested in and maybe not today, but just experiences from states maybe similar analogous to us and who have done this, and the results that have been harvested. [LB902]

DANIEL DONOVAN: Well, Missouri, I believe, is the most recent to do it. And what they

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did, they phase it in over a five-year period. [LB902]

SENATOR PIRSCH: Okay. [LB902]

DANIEL DONOVAN: So I do not know, you know, the results of that at all, but I do know that it was done incrementally. And I believe that what Senator Crawford is proposing is an excellent first increment. [LB902]

SENATOR PIRSCH: Do you know, was that awhile ago that Missouri started their five-year phase-in, or was it just recently? [LB902]

DANIEL DONOVAN: I believe it was just...I believe it was six or seven years ago, sir. They just finished the fifth year. [LB902]

SENATOR PIRSCH: Okay. Have there been some good initial indications that it seems to be working in Missouri, do we know? [LB902]

DANIEL DONOVAN: I believe it is, but I don't have any hard data. [LB902]

SENATOR PIRSCH: Okay. Thank you very much. [LB902]

DANIEL DONOVAN: Thank you, Senator. [LB902]

SENATOR SCHUMACHER: Senator Hansen. [LB902]

SENATOR HANSEN: Thank you. Thank you for being here today and thank you for your service too. You gave the information about the Army major that is going to move to Missouri and have \$5,000 more disposable income. So is he paying \$5,000 in military benefit tax on that retirement? [LB902]

DANIEL DONOVAN: He is paying taxes to the state of Nebraska, yes, sir; and he won't pay that tax when he goes to Missouri. [LB902]

SENATOR HANSEN: No, I understand that. So at a million dollars for the fiscal note, just at each million dollars, \$1 million, that's 200 people that would save \$5,000. How many people would be in that pool of people if they all stayed in Nebraska? [LB902]

DANIEL DONOVAN: Sir, that depends on...again, that's a tough question to answer because not only are we talking about the active duty, we also can talk about the National Guard and the Reservists who live in Nebraska. They count in that pool of people who leave Nebraska rather than staying here and working a second job. It's a very tough question. And again there have been cutbacks in the military over the last decade. Of course, as Senator Crawford mentioned, we're expecting a significant

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cutback to happen here in the next couple years. [LB902]

SENATOR HANSEN: Well, we talked earlier when Senator Crawford was up here about the fiscal note, and it came out at almost \$7 million. But Senator Crawford also said in her opening that it should be closer to \$1.5 million to \$2 million. So that's 400 people. Would you expect them to be more than that many people? And they may not all be at that level. [LB902]

DANIEL DONOVAN: Is that...I don't know how the fiscal note was...how many people the fiscal note people used. [LB902]

SENATOR HANSEN: Nobody knows. (Laughter) [LB902]

DANIEL DONOVAN: I mean, it was a mystery. In fact, I had...I said I originally, when I wrote my testimony, typed my testimony up, I said the fiscal impact would be a wash or even a positive thing for the state. That was how I thought. [LB902]

SENATOR HANSEN: Thank you. [LB902]

DANIEL DONOVAN: You're welcome, sir. [LB902]

SENATOR SCHUMACHER: Any other questions? If not, thank you for your testimony and thank you for your service. [LB902]

DANIEL DONOVAN: Thank you, sir. [LB902]

SENATOR SCHUMACHER: Next proponent for LB902. [LB902]

CRAIG STRONG: (Exhibit 25) Good afternoon, Vice Chairman Schumacher, members of the Revenue Committee. I'm Lieutenant Colonel Craig Strong, C-r-a-i-g S-t-r-o-n-g. I'm a member of the National Guard Association of Nebraska. I'm their legislative chair and I'm representing our membership, which includes all of our current commissioned and warrant officers of the Nebraska Army and Air National Guard, and a large number of retired officers as well. At their request, I'm also representing our Enlisted Association of the Nebraska National Guard, whose membership includes a large number of current and retired enlisted members of the National Guard today. Overall, the National Guard in Nebraska has nearly 4,200 members. On behalf of these associations, I'm here speaking in support of LB902. I'd like to personally thank Senator Crawford for introducing this legislation. As you know, in the military, they often design smart bombs. Well, I believe that Senator Crawford has designed a smart bill. I first sat in front of this committee in 2009 as a major, and the bills that were introduced were pretty straightforward with requesting a full exemption of military retirement. And what this bill offers us is a chance to move the ball forward, which we've been unable to do

repeatedly to get this bill out of committee. The way this bill is crafted, it's sensible and allows us to make forward progress. I will probably...at this point some of my oral testimony has been already brought up. It's in my written, but it's cumulative at this point. But there's a few additional aspects of this bill that provide, as mentioned, the control measure for the state to ensure the military retirees are, in fact, contributing to the labor market, since this tax credit is tied to the amount of nonretirement excluding investment income that is earned by the retiree. In other words, this isn't simply a military retiree exemption. It's a working military retiree exemption. This exemption requires the military retiree to have skin in the game, if you will, to receive the benefit of this exemption. All in all, this is a win-win for both the military retiree and the state of Nebraska. From a National Guard perspective, there's another added aspect of this bill. It assists us in our recruiting and retention efforts. We're seeing more and more people leaving the military before they qualify for the retirement benefits than in the past. When this happens we lose critical job leadership skills that we cannot easily replace in the National Guard. That drives up our training costs and our capability to support the state and our communities. We see LB902 as a tool that can be used to help us retain members that are on the fence when it comes to staying in for another five or ten years and earning a military retirement. We also think this bill has the capability to help us in recruiting prior service personnel to stay in Nebraska or come to Nebraska to finish their military careers in the Nebraska National Guard serving Nebraskans. Finally, LB902 would impact the entire state, not just the Bellevue-Omaha area, since our Army and Air units are located across the state. We're just as interested in keeping soldiers and airmen in Lincoln and Omaha as we are in North Platte, Columbus, Kearney--we don't have an armory in Cedar Rapids; we probably should--to keep them all across our state. For these reasons our associations do support LB902. We believe this bill will have a positive impact on the current and future retired members of the Nebraska National Guard who have volunteered to serve their communities, the state, and nation. We see this bill as a readiness and retention tool. It also has the potential to be, as has been stated numerous times, an economic stimulus for the communities around the state. I urge you to vote this bill out of committee and to the floor of the Legislature. And just some follow-up to earlier statements on the sunset clause. I think that would make this even a smarter bill, potentially. Three years, I agree with Richard, that might be...I don't know if you have enough data; or the word would get out as was mentioned within the three-year sunset. And then you asked earlier, Senator Schumacher, about the theory behind why military retirees get to retire so early. But I think that's...the nature of the question is they are retiring from the military but they're not retiring from the work force. And in theory, the 20-year term of service, it's a young man's game, you've served your time and then you need to transition back into the civilian world. The military retirement is not sufficient to be economically viable to survive on. It's enough for you to transition, seek new opportunities, and then potentially have a fulfilling civilian career following your military service. That's the theory behind it. I thank you for this opportunity to testify today and I stand ready to address any questions you might have. [LB902]

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SENATOR SCHUMACHER: Questions? I just have one. What is the average retirement when they retire from? Does that vary with what they made while they were in the service? Is it an average number? [LB902]

CRAIG STRONG: The average retirement? [LB902]

SENATOR SCHUMACHER: Yes. [LB902]

CRAIG STRONG: It would range...if I give...the numbers I have, actually it's an open source. All military pay and allowances are easily obtained. But typically you would receive approximately 50 percent of your pay and allowance at retirement at 20 years excluding your housing benefits and your subsistence benefits. I'd hesitate to give you an exact number for, say, the average sergeant first class who retires and what that was. But it would simply be looking at what a 20-year E-7, Enlisted 7, sergeant first class would make, and then approximately 50 percent of that pay and allowance would be provided to that service member upon retirement. [LB902]

SENATOR SCHUMACHER: Are we looking like \$3,000 a month? I mean, what kind of ballpark number? [LB902]

CRAIG STRONG: I think that would be a fair ballpark number. If there's others who may testify to that point, but I could probably get on my phone and double-check, so. [LB902]

SENATOR SCHUMACHER: You don't have to do that. Any other questions? Thank you for your testimony and thank you for your service. [LB902]

CRAIG STRONG: Thank you. [LB902]

SENATOR SCHUMACHER: Next testifier, LB902. [LB902]

JIM RISTOW: (Exhibit 26) Hopefully, they've worn you guys down enough here, so. I am Jim Ristow, J-i-m R-i-s-t-o-w, and I'm the CEO of the Bellevue Chamber of Commerce. Pleased to be here today representing the Bellevue-Offutt business community, and I want to thank Senator Schumacher and our senators for giving us the time today to hear this important economic issue, as well as Senator Crawford for introducing this important legislation. The Bellevue...and some of this you may have already heard. I'm just going to gut our way through it, but it's important I think that we all are on the same page. But the Bellevue-Offutt community supports the philosophy that drives legislative bills such as LB902. We support this legislation as it will help us attract and retain an experienced and disciplined work force, encourage growth, and expand our tax base. Recruiting talented people not just for jobs, but also to increase the population and customer base for Nebraska businesses is a top priority for economic developers. In more than one instance we have heard from prospective

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businesses that have expressed interest in our labor force being comprised of not only military dependents but also of military members that are retirees. No doubt we face the economic challenges, some of which seem to be our inability to compete with other states for productive households. Our state continues to exhibit slow growth in population and is ranked in the top ten most heavily out-migrated states for young college-educated people. Our state needs a continuing emphasis towards creative approaches to diminish the brain drain and retain our highly skilled and educated work force. We believe there is one demographic segment that we should work to attract and retain, and that's our military retiree. As you've heard, the word "retiree" can also always conjure up the thought of a person who no longer works or is at the end of their road. However, we're not talking about traditional retirees in that sense. These are highly skilled people selecting a career in the armed forces, but after their commitment is fulfilled they transition into another career or start up businesses. The career or business opportunity can be in any business sector in any part of our country. The competition for these highly skilled individuals doesn't go unnoticed as competitors for defense contractors in states such as Colorado are promoted based on their ability to recruit and retain retirees based on the incentives of their tax exemptions. Within our metropolitan area of Omaha and Bellevue being in close proximity to Iowa, we often see our military retirees move across the river to take advantage of Iowa's tax reductions on military retirees. Offutt Air Force Base, looking at the larger picture, on an annual basis attracts roughly over 1,000 members to the state annually, incoming, which is a great incubator for desirable population growth. The median age of our military retiree transitioning out of the military service is roughly 43 years old. And again it's a very productive age for us and we want them to choose Nebraska. These individuals have at least 20 years to invest in a new career or startup company. As consumers, they need homes, goods, and services. They start businesses, bring businesses to the state from other states, or join the existing work force. I think you heard Senator Crawford mention earlier Ashley Lynn's. We've also just had a recent addition, Take Aim, which is a new gun range; Home Instead Senior Care; Vet Defense Services; The Garrett Group; RWR Innovations; and Suit it Up, are just startup companies just to name right off the top of our head that have military retirees in their families or dependents that started these companies. I would also mention the owner of Chick-fil-A is a retired military officer that chose Nebraska to start up his company. But it would be a great benefit for him as a long-term benefit or for him to sell to other members to come to our community, too, to take...maybe start a business. As the CEO of the Bellevue Chamber of Commerce, I seek opportunities to speak on issues that impact our community and its economic development. In that role, it is important to communicate that Offutt Air Force Base in Nebraska's third largest employer. In 2013, its total economic impact to our metropolitan area was \$1.3 billion. We have 9,980 military members stationed at Offutt, along with civilian workers working on the base. We have 11,126 military family members, and in our metropolitan area we have 10,845 retirees, and it would be within the five, six county area that we...I think I heard 14,000. I don't want to muddy the numbers, but we're just shy of about 11,000 within the metro area that reside in our area, and their

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total payroll between this is roughly \$652 million with our active duty and retirees. We showcase Sarpy County, Bellevue, the greater Omaha metro area, and as well as the state of Nebraska to our active duty guests. We want them to stay or return to be our neighbors, citizens, and employees. We want to attract technically skilled and educated people into our state that will aid the economic growth. We need to attract and retain our military retirees. I understand your tremendous financial duties and fiscal realities. The decision to implement this measure must be carefully balanced with an analysis of potential lost revenue. In this case, we believe that the net result of enacting the proposed legislation would be to increase the number of talented people who settle in our state, growing our economic engine. Our purpose is to provide information regarding the positive benefits of this type of legislation: attract and retain experienced, disciplined work force, and encourage population growth not only in our metropolitan area but within the state of Nebraska, and expand our tax base. So we're behind LB902 and we'd hope that you would advance that, and I'd entertain any questions. [LB902]

SENATOR SCHUMACHER: Any questions? Senator Sullivan. [LB902]

SENATOR SULLIVAN: Thank you, Senator Schumacher. And thank you for your testimony. In your role and involvement with the chamber, I know you cited some figures in terms of the economic impact of the employees at the base; but do you track from your relationship with your member businesses the involvement and the employment of military retirees in the Bellevue area? [LB902]

JIM RISTOW: You do, and it's like a Pew poll but we do have examples of we know where individuals...and as late as just yesterday, for example, we have an annual event in our community called Riverfest and we were meeting with a group to bring bands to the venue this summer, and it's a military member. And in that he expressed to us yesterday that he has orders to be promoted, which would make him leave the community, and he's thinking about putting his papers in to retire and stay here because he likes the community. So you get the feedback not only from the military members that are looking for employment within the area, but also the number of people that are employed by our businesses. You do also get the feedback from potential employers that are coming in that need to fill specific jobs and are looking for specific skill sets, and we can match that not only to what our retirees are or available or what's within mission central on Offutt. But I don't have a hard data that I could tell that it is, but, I mean, that engagement we hear quite a bit and the feedback on that side. [LB902]

SENATOR SULLIVAN: Thank you. [LB902]

SENATOR SCHUMACHER: Any other questions? Senator Harr. [LB902]

SENATOR HARR: You mentioned a number of businesses that came in from retired military. You mentioned one I'm not familiar with: The Garrett Group. Who is that?

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(Laughter) [LB902]

JIM RISTOW: I'll stretch you down the hall. [LB902]

SENATOR HARR: Thank you very much for coming today. [LB902]

JIM RISTOW: Yep. You bet. [LB902]

SENATOR SCHUMACHER: Any other questions? Thank you very much for your testimony. [LB902]

JIM RISTOW: Thank you. [LB902]

SENATOR SCHUMACHER: Further proponents, LB902. LB902, proponents. Seeing none, we'll shift gears to opponents on LB902. Going once. Seeing no opponents, how about neutral people on LB902? Senator Crawford, you're up to bat. [LB902]

SENATOR CRAWFORD: Excellent. Great. And thank you, committee, for your excellent questions. And I'm so pleased to hear several of the resources that we have for those baseline projections and moving forward. And so I'm already writing notes about that in terms of thinking about maybe a five-year report. My only just sort of off the cuff initial concern is whether or not...I mean, you're asking someone to relocate if they know it may only last five years. But I'll give that some more noodling to think about that. And I think it's very fair to make sure there's a report to the Legislature on...since we do have...sounds like we do have...already are doing work force surveys and are already doing surveys tracking military and already doing work tracking who's leaving from Offutt, as well from the transition office; it sounds like we have some great resources to track and be able to give a report to the Revenue Committee, and I'm happy to work on some language on that to add that to the provision. But I was also sitting over there scribbling and trying to sort of answer Senator Harr's question about how much it would cost per veteran and also think a little bit about how much benefit we would get per veteran. So this is just from comments people have made and from what's in the fiscal note, all right? So the fiscal note has two scenarios in it, and so assuming it has...yeah, two scenarios in the fiscal note for LB902 and it talks about how much of the income would be included, how much would be excluded, and just assuming a 6 percent tax rate on that. The one scenario, the first scenario we would be excluding about \$2,700 of income. The other scenario is \$900, so less than \$1,000. So we're talking about pretty...and the cost per veteran. And that strikes me as somewhat similar to what we were projecting when we did some similar figures trying to lay out some different scenarios last year. They were talking somewhere in that range, \$1,000-ish, or to \$2,000 per veteran. So then when you go back and remember what Mr. Ristow said about in the metro area, about \$11,000, and that together that economic impact from...I mean, that economic impact from the salaries is about \$650 million. Then if my

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calculations are correct, that's about \$59,000 per veteran. So you're talking about costs from, you know, around \$1,000 to somewhere close to \$3,000 per, and the return is \$59,000 on those simple calculations. So I think that maybe helps just get a sense of what we're talking about in terms of how much we might be paying out per person, and then what value we get per person back. The other thing I wanted to just remind you is that we don't get any...we don't give any tax benefit unless they are paying taxes on income they are making here. It's a dollar for dollar credit for income that they're...for taxes they're paying on income. So they don't just...just get...they don't just get, you know, a free ride on taxes just for living here. It's the case that if they're paying taxes on their income, they're getting a dollar for dollar credit back on the taxes they would otherwise be paying just on their retirement. And again, as we've said, that amount of their retirement is also modest. So the tax credit they're getting is tax credit on a pretty modest income, less than...we were just looking at a couple of charts over there, and less than \$3,000 a month is a pretty standard for military retiree income. And so this credit is just again for that part of the income, that fairly modest income they make with a military retirement. And again, only dollar for dollar for other income they're making in the state. The other thing, we've had several questions about what's going on in other states. The other states around us are really ramping up their retiree policies, and I just want to remind you of a presentation that I think you saw in this committee earlier from the research professor at UNO, David Drozd--I can never pronounce his last name--from UNO, where he showed you what's happening in terms of data in other states, and he showed you the percent of veterans and in Nebraska and the percent of veterans in other states and in surrounding states, and talked about the fact that our percent of veterans in our population is lower than those other states despite the fact that we have, you know, a military base in this state. And so we should be, you would think, much more likely to have a similar percent of veterans; we have a lower percent of veterans than those other states that have been more aggressive on this front. So those are a few responses to some of the questions that I believe were raised. I think it helps to address the question of what is the cost per veteran, what is the potential benefit per veteran, what data do we already have about our ability to attract and retain veterans. And answer, and we have seen from multiple testifiers that we do have some good measures to try to track if we were to add a component to the bill that required a report back to the Revenue Committee in five years on what's happened on this front, and I'm happy to work on that kind of language. [LB902]

SENATOR SCHUMACHER: I have one question. Suppose in this program, how much money would you guesstimate or how much would the value of the program be diminished if we said that this plum was only available for ten years after separation? [LB902]

SENATOR CRAWFORD: So the average age that people are retiring is 43. I guess I'm not supposed to ask you questions, so the average age is 43, so that would be that first ten years. Well, I don't know. I'd have to think about that. It is the...you would expect

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probably...you're hoping, I think, for a 20-year productivity window. So I think we could...so 20 years makes more sense on that front of expecting them to be working for 20 years. But I think in part the actual fact they have to earn income again also means that it tapers off as their work life tapers off. So I don't know that a time is as necessary because it sort of has a built-in connection to make it fade away as they're less...as they're doing less economic work in the state. [LB902]

SENATOR SCHUMACHER: But we have some obligation of equity toward other retirees from other professions. [LB902]

SENATOR CRAWFORD: Right. [LB902]

SENATOR SCHUMACHER: And the value of these particular special skills ten years later has pretty much evaporated in this (inaudible). [LB902]

SENATOR CRAWFORD: Well, okay. I see what you're saying. I see what you're saying. That is a fair question. I don't feel ready to answer it right this minute but it's a fair question. (Laugh) [LB902]

SENATOR SCHUMACHER: Okay. Thank you. [LB902]

SENATOR HADLEY: Senator Crawford, I apologize for being gone? [LB902]

SENATOR CRAWFORD: Can I say I don't know? (Laugh) No, it's a fair question to consider in terms of...yeah, I appreciate that question. Thank you. [LB902]

SENATOR SCHUMACHER: Thank you. [LB902]

SENATOR HADLEY: Senator Crawford, I apologize for being gone. [LB902]

SENATOR CRAWFORD: Would you like me to start all over again? [LB902]

SENATOR HADLEY: No. (Laughter) If this question has been asked, please tell me and I can read the transcript. Does the quality of defense jobs that are available to veterans have an impact on where veterans retire? [LB902]

SENATOR CRAWFORD: I'm sure that is a component as well, and I think that's one of reasons that the Bellevue Chamber and Bellevue University, some other people who want to make sure that we are attracting and retaining defense contracting jobs have been very interested in this bill over the years. So this bill is similar to a bill that my predecessor, Senator Cornett, presented many years ago, and that was a real push at that time was the window of opportunity at that time was really trying to attract those contractors to your state and keep them here. And that's been a key issue to...because

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it's a bit of a chicken and egg; the contractors go where the work force is and the work force goes where the contractors are. So you're wanting...you're trying to work on both pieces. [LB902]

SENATOR HADLEY: Have we been successful in getting contracts into the Bellevue area? [LB902]

SENATOR CRAWFORD: We have many in our area, yes. But I think there have been, like this summer when I was working on an interim study, we were talking with someone at Bellevue University and there was a key contractor that they were really trying to recruit and they wanted to have that business there along with the university programs to train people to transition into that business; and they weren't able to attract that contractor. So we have many and there are some, you know, that...there is still, I think, potential to attract more, recruit more, if we keep making it a more attractive climate for them. [LB902]

SENATOR HADLEY: Okay. Thank you, Senator Crawford. [LB902]

SENATOR CRAWFORD: Thank you. [LB902]

SENATOR HADLEY: I believe that ends the testimony for LB902. Thank you. I apologize for missing it. Senator Harr, LB1097. Senator Harr. [LB1097]

SENATOR HARR: (Exhibits 27 and 28) Thank you, Chairman Hadley, members of the Revenue Committee. I am Senator Burke Harr, H-a-r-r. I represent Legislative District 8 located in midtown Omaha, which comprises the neighborhoods of Dundee, Benson, and Keystone. I'd first like to thank Senator Beau McCoy and Bill Kintner for cosponsoring this bill, and Senator Jim Smith for prioritizing it. I was privileged this last summer, along with you, to sit on Nebraska's Tax Modernization Committee, which was tasked under LR155 with reviewing and evaluating the state's tax laws and making any recommendations to update or modernize the revenue system. The committee divided itself into three subcommittees to discuss the three major types of taxes and make recommendations to the full committee regarding the topics for the public hearings. Five public hearings were held. Nearly 1,000 people attended the public hearings, and testimony was heard from approximately 250 citizens, if not more. Whether I was listening to the testimony during our trip around the state or meeting with constituents and business leaders, it is clear Nebraska needs tax relief, and we are in a unique place financially where we can afford to do something. According to the Tax Foundation's October 2013 study, "Building on Success: A Guide to Fair, Simple, Pro-Growth Tax Reform for Nebraska," Nebraska ranks 31st on the Tax Foundation's 2013 state business climate index, which annually compares the state's tax system on over 100 variables that impact business. The report said, "Nebraska has one of the best unemployment tax systems but is middle of the pack relative to other states for other

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major tax categories." Researchers we heard during our committee hearings showed that Nebraska's top income rate and corporate tax rates are higher than our neighbors. This causes issues when it comes to recruiting talent to Nebraska and retaining talent to stay in Nebraska. We also heard about property tax on our tour of the state, but there is a strong support for retaining local control over local spending priorities. Property taxes are the primary focus of local government and schools. Decisions are made at the local level. School boards, county boards, and city councils do not call the Governor or the Legislature and ask permission to set property taxes. So what does LB1097 do? The good news about LB1097 is that everybody who pays taxes, income taxes, gets a tax break. There are four major components to the bill. The first raises the brackets; the second lowers. Secondly, it lowers individual income rates; it lowers the tax rate for corporations; and it indexes the brackets. The goal of this bill is to make Nebraska more competitive for higher-paying middle-class jobs and to help small businesses grow by providing tax relief and to attract more business to our state. The right kind of tax cuts can spur economic growth. Here in Nebraska that is not the top...that's not the 1 percent. The top bracket kicks in, in Nebraska, at \$29,000 for individuals. LB1097 is designed to give taxpayers a chance to keep more of their hard-earned money. The bill would also reduce the number of brackets from 4 to 3, and raise the amount at which each begins, starting next year. Please see the handouts for the breakdown, which I think you already have. This will boost the economy and make Nebraska more competitive with neighboring states for high-paying jobs and highly skilled jobs much like we just spoke about on the last bill. The fiscal note on this one is a little big. We received it just 24 hours before the hearing and not had a chance to go over it in depth as we would like. Another disappointment is I wish the fiscal note had broken out what the costs are for each one of the four components that I spoke about, whether that's changing the brackets, the rates for individuals, corporations, and for future indexing of those brackets. Unfortunately, we don't have that information. Quite frankly, we won't be able to get that information unless we kick this out of committee and we have an amendment and it passes to General File at that time, or we can come back next year. Those are the options that have been given to us as you all heard. Now I know some will say, come in today and say we can't afford it and that we can't trust the federal government to continue to fund...help assist in funding for our roads, HHS, or even education. Others will argue that we must make a choice between tax cuts and K-12 education and money for our colleges and universities. This simply is not true. This is not a situation of "either-or" but "and." We need to look at what we can do in a financially responsible manner that helps grow our economy. This year Nebraska's Cash Reserve is expected to grow and could come close to \$729 million by June 30, this summer. Governor Heineman has said that this is not about now, our tax changes; it is about the next 20-30 years, and I agree with him. I believe taking money out of the Cash Reserve to pay for operating expenses would be irresponsible. It would be a money grab and go against everything we as Nebraskans believe. Tax relief should be responsible with a focus on long-term goals and is something we can afford to maintain. Bottom line, we need to lower taxes for our hardworking taxpayers to help attract new

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jobs to Nebraska. This is not a one-year deal or a short-term fix but this will promote long-term economic growth and boost job creation. We have much to be proud of as Americans and Nebraskans. This bill will help make Nebraska better and more competitive. And with that, Chairman Hadley, I would conclude and I'll be happy to answer any questions the committee may have. [LB1097]

SENATOR HADLEY: Do we have questions? Senator Fischer? Senator Fischer...Senator Sullivan. (Laughter) I just got done testifying on the veterans homes, so I'm a little discombobulated. [LB1097]

SENATOR SULLIVAN: Thank you. Thank you, Senator Hadley, and thank you, Senator Harr, for your testimony. I, like you, went through the Tax Modernization hearings this last summer. [LB1097]

SENATOR HARR: And some others too. [LB1097]

SENATOR SULLIVAN: And some others. But in both cases I heard some similarities and I heard three things. One is that people in this state value their education. They want the state to pick up more of the tab in providing that education, and thirdly, they want in so doing to achieve property tax relief. Do you think with your proposal that you presented to us we can achieve that? [LB1097]

SENATOR HARR: The short answer is yes, and the reason why is that you look at where we heard the largest or more complain about property taxes, and it generally started in the west of the state and it decreased as we went east. And what is consistent with that is population. So what we need...the more population we have, the more jobs we have, the more people we bring into the state, the less reliant we are on those certain landowners for property taxes to pay for our schools. So if we can get more individuals into our small towns so they aren't so small, then what we can do is use that to long-term lower our property tax problem. The problem with property tax is there's no instant solution. We need to take a long approach and we need to look at what is the role and responsibility of state government, like you talked about; and we need to look at the role and responsibilities of local government and are they properly exercising their fiduciary duty. But we need to be...the best way to lower property taxes is to get more individuals into the state--short answer. [LB1097]

SENATOR SULLIVAN: But I also heard that Nebraskans wanted the state to provide more support for education. Can we do that with your proposal? [LB1097]

SENATOR HARR: As a state legislator, I'd like the federal government to provide more for our education. I mean, they come down with a whole bunch of criteria that we must do in education and they're unfunded mandates. The answer is, it's not as simple as yes or no. It's about...you know, this bill in its current state I would argue is not affordable;

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but we do have excess funds right now, and I think we can look at ways to encourage growth so that we can get more population here so we can lower that tax burden, you know; and maybe that's part of what we do as a total package is we provide more for schools. I don't know. That's what we as a committee get to decide and hopefully vote something out onto the floor. [LB1097]

SENATOR SULLIVAN: Does it concern you at all that in order to accomplish what you are proposing, we do have to substantially reduce the rainy day fund? [LB1097]

SENATOR HARR: I would argue we should not reduce the rainy day fund to pay for operating expenses while our economy is going well, which it is now. The rainy day fund should only pay for operating expenses during periods of downturn. It shouldn't be paying for it now. And so that's why I say this bill in its current form while it is what we would like to do, this is the ideal and it's not the reality; and so what we need to look at is what can we do to help spur economic growth so that we can continue to lower the rate. But this...you know, as I said, in its current form I don't think it unfortunately is affordable, and I do not believe we should use our rainy day fund during good times to pay for our operating expenses. [LB1097]

SENATOR SULLIVAN: Thank you. [LB1097]

SENATOR HADLEY: Senator Harr, in Nebraska we work on a biennial budget process, and the first year of the biennium is where we basically lay out what we estimate the revenues to be for the two-year period and what we expect the expenditures to be for the two-year period. We're in the second year of a biennium. If we pass this or something like this, how are we going to make...? We've got to take it out of the Cash Reserve this year, correct, because there isn't...there's no place else to go unless we go back into the two-year budget and reduce expenditures for this coming year. Is that a fair statement? [LB1097]

SENATOR HARR: What I would say is because of the operative dates...generally I would agree with you, but because of the operative dates on the bill it wouldn't take effect...it wouldn't affect this year. It would come into effect down the road, and so it would affect rates down the road. So no, while the law would be implemented, the effects of the law would be down the road so that, therefore, we could have this knowledge of a decrease in revenue when the Appropriations Committee goes to work on their updated budget. [LB1097]

SENATOR HADLEY: The fiscal note shows for 2014-15, \$140,741,000 reduction in revenue. That is the budget we're working with right now. [LB1097]

SENATOR HARR: Well, you know what, and I stand corrected, because, yeah, it would do January 1, 2013 to January 1, 2000... [LB1097]

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SENATOR HADLEY: So we would have this year, we have a choice, if we pass this or any significant tax reduction, we have a choice to take it out of the rainy day fund or go back into the budget and reduce future spending, and not...spending for this coming year. [LB1097]

SENATOR HARR: Let me restate that. I apologize. No, I'm going to stand corrected because it's for taxable years deemed to begin...oh yeah, so it would be January 1, and after...but before January...December...well, and maybe what we can do is work on the operative date and we can maybe move that...make an amendment to move that back so that we can properly plan. [LB1097]

SENATOR HADLEY: So what you're saying is we do it this year and then worry about it next year. [LB1097]

SENATOR HARR: I wouldn't say worry about it. What we would be able to do is say we would understand that there's reduced revenue and so when Appropriations goes in to determine how much money there is to spend, they would have a better understanding than to do it...yeah, than to do it before this current tax year. Yes. [LB1097]

SENATOR HADLEY: But at some point in time we have to pay the piper... [LB1097]

SENATOR HARR: Yep. Sure. [LB1097]

SENATOR HADLEY: ...because if revenues...we've got to...what we're saying is we're going to cut the revenues for the state of Nebraska. [LB1097]

SENATOR HARR: Yes. [LB1097]

SENATOR HADLEY: Now I know you can argue that this is going to be a thing that's going to bring in hundreds of companies that are going to flock to Nebraska because, you know, we've cut our top tax rate. But realistically, aren't we going to be cutting our revenues which will result in potential cutting of expenditures later on? [LB1097]

SENATOR HARR: Yes. [LB1097]

SENATOR HADLEY: Other questions? Senator Schumacher. [LB1097]

SENATOR SCHUMACHER: Thank you, Senator Hadley. Thank you for bringing this bill so we can have this discussion and hopefully become enlightened ones when we're finished. Somebody...would it be fair to say that a family or joint return filers making a million dollars a year will save about \$9,000 due to this bill? [LB1097]

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SENATOR HARR: You know, I haven't done the exact math, but I will assume you have and that's about what it is. [LB1097]

SENATOR SCHUMACHER: Close enough for government work. And the 120 people all making over \$10 million a year will save at least \$90,000 a year? [LB1097]

SENATOR HARR: Okay. [LB1097]

SENATOR SCHUMACHER: And what will the person making the median income of \$50,000 save? [LB1097]

SENATOR HARR: Well, and I don't know the answer to that. Do you? And what's that number? [LB1097]

SENATOR SCHUMACHER: It's a whole lot less than \$9,000. [LB1097]

SENATOR HARR: Okay. [LB1097]

SENATOR SCHUMACHER: Less than \$1,000, less than \$500. I've just roughed it out here. Not very much. [LB1097]

SENATOR HARR: Yeah. Well, but what you need to look at... [LB1097]

SENATOR SCHUMACHER: A few dollars a week. Okay? [LB1097]

SENATOR HARR: Okay. [LB1097]

SENATOR SCHUMACHER: And in doing that, we're going to have to make significant cuts somewhere. So what services next year would we be looking at cutting back? [LB1097]

SENATOR HARR: I would probably say legislator pay if it weren't in the constitution. [LB1097]

SENATOR SCHUMACHER: And we can handle that, because now that we could pass that. [LB1097]

SENATOR HARR: And I don't think that will make up the difference. [LB1097]

SENATOR SCHUMACHER: No. [LB1097]

SENATOR HARR: But what I would say is, seriously, is that, you know, what we want to do...well, first of all, look at effective rates. So the effective rate for the top 1 percent, for

those top 100 taxpayers, is something like 3.3 percent. So I would argue their savings won't be as great as you anticipate because they already don't pay a large portion of taxes, for whatever reason, whether that's taking advantage of charitable giving or whether that's taking advantage of other issues. And we can look at that. We can look at...you know, this is meant to start the conversation. I don't want this to be the end-all be-all. What we can look at is do we want to maybe start implementing a reduction in deductions or itemized deductions or special exemptions? We can do that because the Governor has been very clear what he wants and I think it's a noble goal, and that is tax breaks for those making \$60,000 to \$120,000. And I take him at his word that that's what we should be doing. So if we are above that, then we can start looking at what we can do. [LB1097]

SENATOR SCHUMACHER: But we start the conversation but we only have a few legislative days left in order to finish the conversation, and we're about in the same spot as we were at the end of the Modernization Committee when we basically concluded that these massive six-figure-a-year tax cuts were not something that fit into the program of reality, and the majority of the committee signed off on it. I think you signed off on that too. [LB1097]

SENATOR HARR: I did sign off. I thought there was some good recommendations in there. I think this is good too, and I think it's a matter of setting your priorities. And what we're looking at is do we want those, you know. A lot of the tax breaks recommended by the committee go to certain individuals and that's to incentivize certain behavior. Do we want it to go there or do we want to create an overall decrease and then let the market and those individuals decide how they want to spend that money. [LB1097]

SENATOR SCHUMACHER: Well, the one thing that was kind of suggested by the committee was that we index the tax rates. [LB1097]

SENATOR HARR: Yep, and that... [LB1097]

SENATOR SCHUMACHER: And that affects everybody. [LB1097]

SENATOR HARR: Yep, and that's in here too, yeah. [LB1097]

SENATOR SCHUMACHER: Right. But with a whole lot different rates, so. But we... [LB1097]

SENATOR HARR: Yeah. Well, we haven't updated our brackets...I mean we updated them this January 1. Prior to that, we hadn't updated it since 1992 with Governor Nelson. And so if we were just to go back to the 1992 levels, that would cost approximately \$214 million. [LB1097]

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SENATOR SCHUMACHER: Right. But we're relying...we're spending that money right now. So we get down after we shuffle back and forth. We need to figure out an equitable way to distribute any tax cut and we also have to continue to fund our system. [LB1097]

SENATOR HARR: Yep. [LB1097]

SENATOR SCHUMACHER: And, you know, we've got to say, okay, we're willing to do away with...if we're going to do \$200 million of tax cuts, however distributed with \$200 million dollars' worth of spending. And, you know, everyone...well, what would you suggest those \$200 million come from? [LB1097]

SENATOR HARR: Well, let me start by saying I think you and I...or at least I can speak for myself, I am a lot more knowledgeable on tax policies thanks to the hard work of our committee and the staff and the work of the resolution and the Tax Committee last year. And think it's just time for us to sit down as a group and figure out what our priorities are and what we want to do and what we think we can afford and what we think we can't afford. This is similar to Senator Janssen's bill. This is meant to introduce the conversation to talk about what we can do. But I do think we should...if we're going to cut taxes, I do think we should look at doing it across the board so that everyone gets a little something. It may not be as much as anyone wants. It never is, because we do have great responsibilities. We have education, we have HHS, our two largest responsibilities. But right now we are taking in more money than we are spending, which is a great place to be. And the question is, what do we want to do with those excess funds? [LB1097]

SENATOR SCHUMACHER: I think we'll take up that rate of increase, that you're assuming in that statement, maybe a little bit later on. But the job of this committee, isn't it, to fund the budget? Fund what the Appropriations...the body upstairs passes a budget? Isn't that our primary responsibility? [LB1097]

SENATOR HARR: I would argue that is correct, but it's not to overfund. [LB1097]

SENATOR SCHUMACHER: Right. And at the current rate we're about funding, and the assumption that we're going to be building this reserve is based upon some really, really optimistic projections. So right now we've got a budget we have to fund, and with multi-hundred-million-dollar cuts we can't fund. So in your theory of legislation, should this committee drive the body upstairs by restricting revenue, or do we start the other way around by cutting spending and then raising the revenue to match our spending cuts? [LB1097]

SENATOR HARR: Well, I think Chairman Mello has done a very good as Appropriations Chair, and we, because of his hard work and the work of that committee, I think we're

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going to end up with a surplus. And how much that rainy day or surplus should be I don't know. I think it should probably be around 600, 650, two months or what it costs to run the government. And I think that we need to look at how do we spend down, and I don't think it should be operating costs. How do we... [LB1097]

SENATOR SCHUMACHER: What is the surplus today? Today and not projected out. Today, what is it? [LB1097]

SENATOR HARR: I don't know that exact number for today. [LB1097]

SENATOR SCHUMACHER: It's a whole lot less than \$700 million today. [LB1097]

SENATOR HARR: Than \$26 million. Yeah. It is less. [LB1097]

SENATOR SCHUMACHER: So we aren't at the magic...today we aren't at the magic... [LB1097]

SENATOR HARR: Yeah. And so that's why I think the tax...and I'm not saying that these tax cuts should come out of the rainy day fund. They should never come out of operating expenses, especially during times of economic growth. [LB1097]

SENATOR SCHUMACHER: If we're still in the building mode, building up the rainy day fund to that two-month level that was preordained before our time here and for purposes of discussion is good enough for government work. [LB1097]

SENATOR HARR: I think it's...that's good economic policy, yeah. [LB1097]

SENATOR SCHUMACHER: Right. Then how can we build up that rainy day fund without then...and cut taxes without taking it out of the only place left, and that is what's already been appropriated. [LB1097]

SENATOR HARR: Well, I think we have to look at those numbers a little closer. You have some assumptions in there that I wouldn't necessarily agree with. [LB1097]

SENATOR SCHUMACHER: So you disagree that we're not at two months in rainy day reserve right now? [LB1097]

SENATOR HARR: Well, no. What I'm saying is I don't think we're at a decline in it, and I'm also arguing, you know, some people say we're at a high water mark, and I'm saying is we need to keep that momentum going. And so what we need to do is look at what do we need to do to keep the economy moving. And this is one option, a tool in the toolbox, to keep the economy going is to get more money back into the hands of the consumers that are the taxpayers in this situation. [LB1097]

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SENATOR SCHUMACHER: And so the theory is by dropping that top bracket from 6.8 to 5.9 we're going to have such a surge of economic activity that it's going to more than make up for it. [LB1097]

SENATOR HARR: No. And I don't think we can afford 5.9 and we can't afford this current fiscal note, I think we all agree with that; so then it has to be about compromise. But how do we do enough so that we can encourage economic growth while at the same time attracting new jobs without bankrupting the government? [LB1097]

SENATOR SCHUMACHER: Well, I mean, put yourself on a corporate board. Let's say, well, we would look at it and we can't do this kind of a cut, it's way too big; but we could cut it from 6.8 to 6.5. Do you think that's going to make a hill of beans' difference to anybody? [LB1097]

SENATOR HARR: I don't know. I would also argue is, and contend, that if in fact we can afford to keep the government going at 6.5, we probably should. [LB1097]

SENATOR SCHUMACHER: I don't have any other questions. [LB1097]

SENATOR HADLEY: I have one more. A criteria that I've tried to use is that when we're dealing with it needs to be reasonable and sustainable. Right now, do you think LB1097 in its current form is reasonable and sustainable? [LB1097]

SENATOR HARR: No. [LB1097]

SENATOR HADLEY: Okay. [LB1097]

SENATOR HARR: And, you know, that's part of the...it gets back to my frustration that I mentioned earlier on LB902 is the fact that we never know what the fiscal note is on a bill when we introduce it until 24 hours ahead of time, and it's very frustrating when you have...fiscal notes work great and I don't mean to hijack my own bill with my own agenda, but fiscal notes work great when you have an idea of what you want to do, and then you want to...the cost isn't as important. But when you have a certain amount of money you can spend and you want to create a policy around that, our current system could use improvement. And it's not an indictment on our Fiscal Office, our Fiscal Analysts. It's just a reality with the way we have it set up now. That's a weakness within the current program, the current system, that we could look to improve. [LB1097]

SENATOR HADLEY: But, Senator Harr, I think in the Modernization Committee we asked the Revenue Department for the estimated revenue lost if we dropped the top rate a half of a percent. And we got a \$300 million a year...\$350 million a year answer from them. So we knew this summer approximately what this, you know, would start at.

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[LB1097]

SENATOR HARR: We knew that. What we didn't know was the cost and change in the brackets. And, you know, staff and the Chair of a committee get access that a lowly legislator doesn't always get. [LB1097]

SENATOR HADLEY: I got...I asked the Revenue Committee...or the Revenue Department, to run a scenario for me, and I got back a nice letter saying they don't do that. [LB1097]

SENATOR HARR: Well, then I stand corrected. You don't get any more than I do. (Laugh) [LB1097]

SENATOR HADLEY: What we got was the committee asked...as part of our work on the committee, we asked different scenarios, what they would do. And... [LB1097]

SENATOR HARR: Yeah. And they were willing to answer that. [LB1097]

SENATOR HADLEY: Yeah. [LB1097]

SENATOR HARR: They didn't...you know, I couldn't get it on this. So that's a weakness in the way we do the system right now. It's a...and, you know, the answer...I mean, we were all here when I asked Commissioner Conroy some questions, and she said introduce a bill and if it's wrong, come back next year and look at previous years. It's a weakness. [LB1097]

SENATOR HADLEY: Senator Schumacher. [LB1097]

SENATOR SCHUMACHER: Thank you, Senator Hadley. I didn't have any better luck than either one of you getting numbers. But we did have those numbers of that \$300 million for a half a point. And by...we knew that was a baseline, so roughly \$600 billion...or \$600 million for a point. And it had to get worse from there if you began filtering in and juggling with the rate. So we knew this thing from the very beginning, at a half a point, was going to be \$300 million give or take--big, big numbers, far more than what would be reasonable. And isn't that what led us to our conclusion that it was not the thing to do? [LB1097]

SENATOR HARR: I don't know how to answer that question I guess is what I'd say. [LB1097]

SENATOR SCHUMACHER: Okay. Thank you, Senator. [LB1097]

SENATOR HADLEY: Okay. Any questions for Senator Harr? Thank you, Senator Harr.

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[LB1097]

SENATOR HARR: Thank you. [LB1097]

SENATOR HADLEY: I assume you are staying for closing? [LB1097]

SENATOR HARR: Yes, sir. [LB1097]

SENATOR HADLEY: Okay. First proponent, please, for LB1097. [LB1097]

LESLIE ANDERSEN: (Exhibits 29 and 30) I feel like I'm down here underneath the table. Good afternoon, Chairman Hadley and members of the committee. For the record, my name is Leslie Andersen; the first name is spelled L-e-s-l-i-e, last name Andersen, A-n-d-e-r-s-e-n. I'm testifying today on behalf of the Greater Omaha Chamber, the Lincoln Chamber of Commerce, the Nebraska Bankers Association, and the Nebraska Federation of Independent Businesses in support of LB1097. First of all, we'd like to thank Senator Harr for introducing this bill and we also want to thank Senators Hadley, Janssen, and McCoy for introducing measures to reduce Nebraska's taxpayers' overall burden as well. We believe those bills are also trying to tackle Nebraska's competitive disadvantage due to our higher than average burden of taxation. First, let me say a few things about the fiscal note that came out yesterday. We don't have any delusions about taking \$500 million out of the state budget every year and expecting everything to run smoothly. But we also believe that we can afford a significant tax reduction this year, and we're ready to sit down with senators to hit a more reasonable revenue mark. This bill, as you know, doesn't have any offsets, and we think that's a great place to start in reducing the fiscal note. All that said, the state finds itself at a crossroads. With a record high Cash Reserve Fund scheduled to hit \$725 million next year, and anywhere from \$200 million to \$400 million in excess funds in what the Governor has referred to as our checking account, we believe the Legislature has an opportunity to let Nebraska's citizens and its small businesses keep more of what they earn while at the same time further strengthening our economy. The first chart you see in your handouts is from the Institute on Taxation and Economic Policy. They did some analysis on this bill and they found that a family making \$60,000 to \$92,000 would see a savings of \$437 annually. \$437 can make a difference. It's more money for food, gas in the car, and utility bills. Furthermore, they found that a family making between \$92,000 and \$168,000 would save around \$836 annually, and that range could easily be a two-income family with a dad who is a teacher and a mother who is working as a state employee; and these are the types of folks in Nebraska that we have in our top 20 percent. The chart also highlights the benefits to the top 20 percent of wage earners, and that tells an obvious story. What the chart doesn't show is that the top 14 percent of wage earners in Nebraska pay 61 percent of the income taxes in our state. That means proportionately the top 20 percent are seeing less benefit relative to the percent of taxes that they're paying. The numbers at the top of the graph

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simply reflect the amount of taxes paid by the top wage earners. Anytime you make changes to our tax structure, you're going to see much more drastic numbers at the top because that's where most of our tax base is. Nebraska has a very progressive income tax system, and this bill retains our progressivity. We had Dr. John Anderson from UNL do some comparative analysis on our current system versus life under LB1097. It's the second of the two handouts that you have. This bill would increase the number of people and families who have no income tax liability whatsoever. The new taxable income threshold under LB1097, because of deductions and exemptions that exist, would be \$34,100. So a family of four wouldn't pay a dime in state income taxes until they pass that income amount. In addition, a family of four with \$35,000 worth of income would see taxes reduced from \$233 to \$20, or a 91 percent tax cut. A family of four with \$100,000 in income would have their tax bill reduced from \$3,837 to \$2,966; that's \$870 or 22.7 percent in a tax reduction. This bill also makes our state more competitive for small business growth, jobs, retirees, and others, because we're touching everybody. Many small businesses pay their taxes through the personal income tax structure, as you're aware, and this bill will help businesses in our state compete with small businesses in the states around us. Dr. Ernie Goss of Creighton University also conducted a study released this month that Nebraska has the highest state and local tax burden of any state with which we share a border. And Dr. Goss and Drs. Anderson and Eric Thompson concluded in two separate studies that to encourage growth in the economy, states should lower their overall burden of taxation. We cannot continue to compete with states around us nationally or internationally if we don't seize the opportunities when they're presented, and it seems that through the leadership of the Legislature and the Governor we're now seeing the very opportunity we need to boost our economy forward and to even more robust growth. Thank you very much, and I'd be willing to try to answer any questions you might have. [LB1097]

SENATOR HADLEY: Thank you, Ms. Andersen. Are there questions? Senator Schumacher. [LB1097]

SENATOR SCHUMACHER: Thank you for appearing before us today to testify. What was Nebraska's GDP growth, real and nominal, for last year? [LB1097]

LESLIE ANDERSEN: I can't answer that question exactly. [LB1097]

SENATOR SCHUMACHER: About. [LB1097]

LESLIE ANDERSEN: I'd be guessing. [LB1097]

SENATOR SCHUMACHER: Do you...you sit on the, what is it, Tax Review... [LB1097]

LESLIE ANDERSEN: The Economic Forecasting Board. [LB1097]

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SENATOR SCHUMACHER: Right. Do you sit on that? [LB1097]

LESLIE ANDERSEN: I do. [LB1097]

SENATOR SCHUMACHER: And you're not familiar with what our GDP growth was last year? [LB1097]

LESLIE ANDERSEN: You know, I can't comment about any of the information that I'm given as a member of that Forecasting Board until after our forecast. [LB1097]

SENATOR SCHUMACHER: Well, but this is public information what our GDP growth was last year; so that's not any super secret confidential thing. [LB1097]

LESLIE ANDERSEN: I'm sorry, Senator. I will not answer that question. [LB1097]

SENATOR SCHUMACHER: No use pursuing that anymore. Thank you, Senator Hadley. [LB1097]

SENATOR HADLEY: I believe Senator Goss and Senator Anderson and Senator Thompson (sic--Doctors) also recommended putting a sales tax on prescription drugs, sales tax on food, raising the gas tax, and eliminating the property tax credit fund. The groups you're...I think paid for...the company that your groups you're representing paid for that study. Do they agree with that position? [LB1097]

LESLIE ANDERSEN: No. Their study was completely independent. The study...those groups did pay for the study but we did not direct... [LB1097]

SENATOR HADLEY: But the question is, do you agree with that conclusion that they made? [LB1097]

LESLIE ANDERSEN: Now this bill doesn't have anything to do with that study. [LB1097]

SENATOR HADLEY: But I'm asking...okay, I guess that's all the questions I have. Seeing no others. [LB1097]

LESLIE ANDERSEN: Thank you. [LB1097]

SENATOR HADLEY: Next proponent. [LB1097]

CHRIS ROTH: (Exhibit 31) Chairman Hadley and members of the Revenue Committee, my name is Chris Roth; that's spelled C-h-r-i-s R-o-t-h. I am president and CEO of Reinke Manufacturing Company in Deshler, Nebraska. This year I'm also serving as the chair of the Nebraska Chamber of Commerce and Industry, and I'm appearing here

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today on behalf of the State Chamber in support of LB1097. Let me begin by stating the simple fact the income tax system does have a wide-ranging significant impact on the business community. While this sounds like common sense, it contradicts what has been dispersed by some special interests who want to grow government spending. But ask anyone who runs a successful business, income taxes influence decisions on building factories, purchasing equipment, expanding facilities, and hiring employees. According to the Tax Foundation, the Cornhusker state is ranked 15th worst for its top corporate tax rate and 21st worst for its maximum income tax rate on individuals. These are not good statistics for us if we are to attract business and the related jobs to Nebraska. Rather than micromanaging the decisions of the private sector, Nebraska should be striving to lower the income tax burden as much as possible to allow our businesses to grow and create new jobs. National studies by leading, free-market economists overwhelmingly conclude that there is strong correlation between lower taxes and job growth. Lower income taxes traditionally yield increased economic growth, more investment, and a boost in productivity. In my experience in running a manufacturing facility in Thayer County, I found that one of the challenges in rural Nebraska is the recruitment of skilled employees. Our facility is located within ten miles of the Kansas border. In fact, we recently added on to our facility in Belleville, Kansas, which is located about 30 miles from our headquarters in Nebraska. We now have right at 100 employees in our Belleville facility. One thing I hear from Kansas personnel is that they pay less taxes in Kansas. Consider this: In 2014, a married couple filing a joint return in Kansas will pay a 2.7 percent income tax rate up to the first \$30,000 of income and over that the rate goes to 4.8 percent. Nebraska's current top rate is 6.84 percent. If you were an individual and you were close to the border of Nebraska and Kansas, where would you choose to live and work? LB1097 offers Nebraska policymakers the opportunity to address these challenges, while reforming and modernizing our tax structure. The changes proposed in LB1097 are not just about higher income earners. LB1097 benefits lower income taxpayers by consolidating brackets and significantly raising the threshold at which they must pay. This bill recognizes that unlike our current income tax structure, individuals earning more than \$29,000 should not be considered middle- or higher-income earners. Another much needed reform is the adjustment of tax brackets for inflation, which will prevent future bracket creep. Another pro growth reform proposed in LB1097 amends the corporate income tax brackets that match the individual income tax brackets, which is a tax equity and fairness issue. Over the past two decades, an overwhelming number of Nebraska businesses have organized or have restructured outside of the traditional corporate model. There should be no distinction in income tax rates based on how a business is organized. This proposed change particularly supports small business growth. In summary, LB1097 is pro growth reform that will generate a more robust Nebraska economy. It will allow for more investment, more employment, more take-home pay for families, and a higher standard of living. I urge the Revenue Committee to advance LB1097 to the full Legislature for further debate. [LB1097]

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SENATOR HADLEY: Thanks, Chris. I won't ask a question but I have to make a comment because you brought up Kansas. [LB1097]

CHRIS ROTH: Yes. [LB1097]

SENATOR HADLEY: Last year they were in session 20 days late because they couldn't balance their budget. [LB1097]

CHRIS ROTH: Right. [LB1097]

SENATOR HADLEY: They had to increase their sales tax, the most regressive tax that they have. You're a business and you want to move to Kansas and you read in the paper that there's a court suit for a half a billion dollars in front of their Supreme Court right now because they're not funding K-12 education appropriately. So you're going to move a business to Kansas when there's a court case because they aren't funding your public schools appropriately? [LB1097]

CHRIS ROTH: What I would say to that, Senator Hadley, is LB1097, obviously the top rate was what I'm talking about, is 4.8 in Kansas. LB1097 doesn't take it to 4.8. I understand, you know, we just...the fiscal note, I'm just getting up to speed on that but I would tell you this, that being that close to Kansas there are significant manufacturers across the border that we compete with, and so we have to...that's why we had to do what we had to do in order to keep up with what our production was. Because we draw from...we hit about 60 Zip codes in south-central Nebraska and north-central Kansas is where we hit payroll for, and so we're competing for resources just across the border. [LB1097]

SENATOR HADLEY: And one last thing and then I'll ask Senator Schumacher. The tax cut in LB1097 as a percentage is greater than the tax cut that they had in Kansas that caused all the problems in Kansas. I believe theirs was like 12.8 percent or 14. You figure the percentage that this tax cut is, and I believe it is greater than the tax cut that they had in Kansas. Senator Schumacher. [LB1097]

SENATOR SCHUMACHER: Thank you, Senator Hadley. And thank you for your testimony today. The State Chamber has been responsible for a lot of good pro business moves. It's put us in the top category of many different surveys, certainly in the top ten and some in the top five. Would you go over those with us, where we're really great? [LB1097]

CHRIS ROTH: I don't remember the exact ones, but I know, like, the CNBC, one of the CNBC studies has got us in the top, certainly the top ten as I remember. That's one that I remember. But that...you're right, it goes over lots of different things as far as...you know, there's lots of different characteristics or statistics that go into that as far as work

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comp, unemployment. There's other things that all go into that. Obviously LB1097 focuses in more on the income tax rates. [LB1097]

SENATOR SCHUMACHER: So, you know, we're not doing so terrible, are we? [LB1097]

CHRIS ROTH: Well...but I would tell you, you know, in certain of those studies you are correct. I'm just telling you from my personal experience what I'm dealing with as far as trying to get employees to...if I want to try to get them to my facility in Nebraska and they are in Kansas, they...it's very difficult for us to do that and that's why, one of the reasons why, we ended up putting a facility in Kansas, so we could attract those employees. [LB1097]

SENATOR SCHUMACHER: Was there a shortage of Nebraska employees, was that it? [LB1097]

CHRIS ROTH: We have difficulty getting skilled employees. [LB1097]

SENATOR SCHUMACHER: All right. And you'd have difficulty if there were no taxes. [LB1097]

CHRIS ROTH: Our unemployment rate in our county is less than 3 percent. [LB1097]

SENATOR SCHUMACHER: Yeah. And that's an inherent problem. It has very little relation to taxes, and that's because business is so productive here. [LB1097]

CHRIS ROTH: Well, part of it, though, was like I was saying, is if you ask somebody who lives in Kansas, and I understand, Senator Hadley, what you're talking about as far as the schools and all those kind of things which are equally as important; but if you just ask...you know, because when we get further away from our facility, when you get 45 miles or so away, the folks aren't going to drive because of the gas and the time and all those kind of issues. They will not move. And one of the reasons if you ask them...because we have housing available. We build apartment houses in the little town of Deshler, Nebraska, to try to provide housing so we can get people to move there. They will not do that because of some of these issues. [LB1097]

SENATOR SCHUMACHER: We're all reasonably successful business people or professionals here, and we kind of realize there's no free lunch, okay? [LB1097]

CHRIS ROTH: Right. [LB1097]

SENATOR SCHUMACHER: And maybe we can shuffle things around a bit but there's no free lunch. [LB1097]

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CHRIS ROTH: Right. [LB1097]

SENATOR SCHUMACHER: So we got kind of two choices if we're going to make any significant reduction in the revenue with the state income tax component. We can cut their spending that we're doing right now and absorb the cut that way. Any specific cuts that you would suggest so we can start making up in the hundreds of millions of dollars? [LB1097]

CHRIS ROTH: Yeah, I don't...you know, I don't think I'm qualified to make those kind of statements with those recommendations. I haven't studied that so I would...that would be difficult for me to say. I would say, you know, I think that there's some things to look at as far as just overall what the cost increases are expected to be; you know, the percentage increases over the next few years, you know, holding those increases in line. But I also think I...you know, to a certain degree I agree with Senator Harr, is this is a discussion that needs to be had. The Cash Reserve is increasing and so there's a discussion that needs to be had as far as what do you do with increasing cash reserves. [LB1097]

SENATOR SCHUMACHER: But you will agree we're still not up today to the level that we need to be in the Cash Reserve. [LB1097]

CHRIS ROTH: I guess what I'm saying is that, you know, to me, you have to look it over. You can't look...for me, I can't look at things on a today. I have to look at things over a longer period of time, and the Cash Reserve looks like it's growing and, you know, some of the estimates that I have seen shows that if you can hold the line on some of the cost, the percentage of the cost increases, the spending increases over time, there could be a discussion had as far as a tax decrease. [LB1097]

SENATOR SCHUMACHER: In your business, have you ever declared a dividend over a projected revenue in the future? [LB1097]

CHRIS ROTH: We...you know, obviously, we're a privately held company so I'm not going to get into that. [LB1097]

SENATOR SCHUMACHER: All right. What...one of the suggestions that's been made in testimony so far is that, well, this is only part of the puzzle because we bring down these taxes, these income taxes, and then we generate revenue someplace else. What type of the "someplace elses" would we need to look to? [LB1097]

CHRIS ROTH: Well, you know, again I think when you...for me, when I look at something like LB1097, obviously what you hope for is an increase in folks coming to the state. Again, what we try to do where we're at is we build housing and we hope to

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bring people into that housing. I mean, we don't have people available saying...for example, we'll move people in from Texas or we move people in from Illinois or California, and we have to have that housing available for them when they come. So we build it in advance. Those are, you know...and it's easier for us to get some of those folks if they're coming in from Kansas, again because we're so close to Kansas I deal with that the most, it's easier for us, you know, to...if we've got...for economic growth, if we have something like this, this helps us get those people recruited. [LB1097]

SENATOR SCHUMACHER: But what we're talking about here, and it's, you know, resulting in big, big numbers, hundreds of millions of dollars,... [LB1097]

CHRIS ROTH: Yeah. [LB1097]

SENATOR SCHUMACHER: ...a nine-tenths of a percent change in the individual rates; do you think it's going to bring a whole lot of people in? [LB1097]

CHRIS ROTH: Well, you know, any reduction in those rates improves our status in the rankings that businesses use to where they're going to locate facilities. [LB1097]

SENATOR SCHUMACHER: Right. But is there any data at all that would indicate a nine-tenths of a point change is... [LB1097]

CHRIS ROTH: I don't have that. [LB1097]

SENATOR SCHUMACHER: No. And but we're placing...would be placing some pretty serious bets when we're talking in terms of cutting. [LB1097]

CHRIS ROTH: Sure. [LB1097]

SENATOR SCHUMACHER: So we kind of should know what the odds are. [LB1097]

CHRIS ROTH: But as you were stating earlier, when you are in business a lot of times what you do is you put in new equipment, making bets that you're going to be able to get business to cover that new piece of equipment that you're putting in. [LB1097]

SENATOR SCHUMACHER: But those are bets based upon fairly decent analysis of what probably is out there. [LB1097]

CHRIS ROTH: Right. And I think that's why you have to have this discussion and wait for the economic, whatever that is on February 28, when they come out with what their estimations are. [LB1097]

SENATOR SCHUMACHER: But the people making those estimations we just heard

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don't even know what nominal GDP is. [LB1097]

CHRIS ROTH: Well, again I don't know...you know, I think those people that are on that board probably have a pretty good idea of what they're doing, and so when that comes out on February 28 I think that's... [LB1097]

SENATOR SCHUMACHER: Revenue is... [LB1097]

CHRIS ROTH: ...can be relied upon. [LB1097]

SENATOR SCHUMACHER: Revenue is almost correlated 100 percent to nominal GDP. If you don't know nominal GDP, pretty hard to make a decent revenue projection. [LB1097]

CHRIS ROTH: All I'm saying is I'm not going to argue that point with you. [LB1097]

SENATOR SCHUMACHER: Sure. [LB1097]

CHRIS ROTH: What I'm going to say is I think the people that are on that committee are probably pretty learned. [LB1097]

SENATOR SCHUMACHER: I...one last thing. The...I kind of set up a criteria for anything that we do. First of all, we've got to pay the bills. [LB1097]

CHRIS ROTH: Right. [LB1097]

SENATOR SCHUMACHER: Secondly, we've got to maintain a prudent reserve and two months of expenses. Years ago before any of this commotion started, it was kind of stipulated as a prudent reserve is somewhere around \$650 million give or take. And third, we can't shift burden to the folks making between \$20,000 and \$120,000 a year. Would you agree that that's a pretty reasonable criteria to use? [LB1097]

CHRIS ROTH: How I would react to that is on LB1097 as far as an overall discussion is it increases the top level on the bracket, you know, the top...the earnings goes up to \$72,000, I think, from now \$29,000. So the way I see that is that helps the people in that bracket, that's a good tax cut for those folks. [LB1097]

SENATOR SCHUMACHER: If we don't turn around and have to increase the sales tax or some other tax on them on the back door. [LB1097]

CHRIS ROTH: That's all part of the discussion. [LB1097]

SENATOR SCHUMACHER: As a philosophical thing. But those three things are pretty

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good anchors. [LB1097]

CHRIS ROTH: Those are all part of the discussion that I think needs to happen. [LB1097]

SENATOR SCHUMACHER: Thank you. [LB1097]

SENATOR HADLEY: Senator Sullivan. [LB1097]

SENATOR SULLIVAN: Thank you, Senator Hadley. Thank you for your testimony. You and I have been in several situations where we've talked about education... [LB1097]

CHRIS ROTH: Absolutely. [LB1097]

SENATOR SULLIVAN ...and the concern about a skilled work force. [LB1097]

CHRIS ROTH Right. [LB1097]

SENATOR SULLIVAN: And so my questions really have to relate with what perhaps is a potential loss in revenue to provide the resources we need for public education. And I would like to know how you think this has the potential to impact, because you've talked about the need to have some variation of career academies, which might be a new thing for our public schools, particularly in rural Nebraska. And if we cannot support via state aid adequately our public schools... [LB1097]

CHRIS ROTH: Right. [LB1097]

SENATOR SULLIVAN: ...and they want to continue to do that, they're going to look to their property tax resources to accomplish that. And located where Deshler is, in a rural community, I'm just wondering how you think we can accomplish all that? [LB1097]

CHRIS ROTH: Well, again, I think what this all comes down to is it comes down to a good discussion I think that needs to be had regarding an increase in Cash Reserve; and certainly I don't have all the answers, Senator. I don't...you know, certainly I'm in favor of education. You know that because we've had...we've been in those meetings before and we've talked about that. So certainly education is important and certainly I don't think anybody in the Nebraska Chamber would talk about education is not important. Education is important. I guess what I'm saying is, is that you have to be...what I'm saying is, that there has to be some sort of a discussion that has to revolve around we're bringing in more money to the Cash Reserve it appears like, fairly regularly. It will be very interesting to see what happens on February 28 when that board, when that committee comes out with what their estimations are going to look like; and have a good discussion then regarding income taxes, state aid, making sure that

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that's, you know, is something that is...that's obviously important to the state, that's a priority for the state, and trying to figure out the best way to handle all that. I'm...we just need to have a....I think the state just needs to have a discussion regarding income taxes, since the Cash Reserve seems to be increasing. [LB1097]

SENATOR SULLIVAN: Thank you. [LB1097]

SENATOR HADLEY: Any other questions? Seeing none, thank you, Chris. [LB1097]

CHRIS ROTH: All right. Thank you. [LB1097]

SENATOR HADLEY: Next proponent. Welcome. [LB1097]

JIM VOKAL: (Exhibit 32) Chairman Hadley and members of the Revenue Committee, my name is Jim Vokal, J-i-m V-o-k-a-l, and I'm the CEO of the Platte Institute for Economic Research. I'm pleased to testify today in support of LB1097. Nebraska has many strengths: an enviable employment rate, a fiscally responsible state government, good transportation infrastructure, a diverse array of successful businesses, and a deserved reputation for honesty and hard work. The state performs well, often in the top ten, in a number of broad surveys of economic performance and broad quality of life issues. The key for tax reform therefore is to build on the success, to take what works and make it even better. One may ask though, why tax reform? If things are so good, why change? Over the past several months the Platte Institute and the Tax Foundation have met and exchanged communications with business leaders, policymakers, and other stakeholders in the state. We heard strong concerns. First, Nebraska's top income tax rate and corporate tax rates are high for the region and for the revenue we collect. These rates cause sticker shock for recruiting talent to come to Nebraska and retaining talent to stay in Nebraska. Outward net interstate migration is not just anecdotal; it is supported by available data. Between 2000 and 2010, the Tax Foundation estimates that over \$1.7 billion in income has left Nebraska. The second concern was high corporate tax rates have led to increasing demands for generous tax incentives to counter the high corporate tax rate--a vicious cycle. Third, property taxes are a concern, but there is strong support for retaining local control over local spending priorities. The property tax on business equipment is of particular concern. And finally, Nebraska needs every advantage it can to overcome the cultural bias against the Plains states; that perception that we are not exciting and productive places to live and work. Nebraska's economic performance would make most states envious, but its tax system is middle of the pack. These are the words from the Tax Foundation who is also here today. They further state that from their review of economic and fiscal data, from research on the economic efficiency of various tax structures, and from dozens of conversations with Nebraska stakeholders, Nebraska's tax system is ripe for reform. Specifically, income tax relief must be accomplished if Nebraska is to remain competitive with neighboring states. We cannot ignore the empirical economic evidence

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that lower income taxes leads to increased growth. Between 2002 and 2012, 62 percent of the three million net new jobs created in the United States were created in the nine no-income tax states. Additionally, these same states experienced average economic growth increases 15 percent higher than the average of the U.S. Further, seven of the nine states with no income tax saw their populations grow faster than the national average. The remaining two states grew faster than other states in the regions with income taxes. The nature of the effect of taxation on economic growth may be a controversial conversation topic, but it is not very controversial among professional economists. Almost invariably, economists maintain that increasing taxation has a negative effect on economic growth, and that lowering taxes encourages growth. To examine the empirical evidence for these claims, and to demonstrate the consensus among economists in peer-reviewed journals, Dr. William McBride of the Tax Foundation surveyed the recent scholarly literature for studies on the real-world effects of taxation. He found 26 studies, which are attached to my testimony and distributed today, on the relationship between taxes and economic growth published in peer-reviewed academic journals since the 1980s. Of these, 23 studies found a negative relationship between taxes and growth. This is not the atypical conclusion of a lone scholar; it is the consensus--I repeat consensus--view of the vast majority of economists who have analyzed the available data and published on the topic in peer-reviewed journals. For those that say that there is no evidence that lower taxes lead to increased growth, they are not being honest with you nor the hardworking Nebraskans across the state. Finally, according to Travis Brown, author of How Money Walks, Nebraska has lost nearly 60,000 workers since 1985 due to tax migration or a net AGI loss of approximately \$2.3 billion. Tax environments do matter to the citizens of Nebraska and it is clear that they walk when states are not inviting with their tax code. Evidence suggests that passage of LB1097 will lead to increased economic growth, preventing further migration of the middle class and retirees, and additional investment in our great state. And before I open it up for any questions you may have and not part of my written testimony, certainly the Platte Institute, as evidenced by the study that Senator Harr referred to, published in partnership with the Tax Foundation, the Platte Institute does not advocate for funding LB1097 through cash reserves or through spending cuts. We certainly acknowledge that we are operating fairly lean in this state and efficiently; but we do, in our plan that was released last fall, have a balanced revenue source towards the proposed income tax rate reductions that we advocated for. With that I will open it up for questions for, now, the three senators that remain.
[LB1097]

SENATOR HADLEY: Thank you, Mr. Vokal. We've heard a lot about the states with no income tax. Can you get us the weather of Florida and the tourists that come? Can you get us the extraction tax in Texas? The number one tax revenue in Wyoming, is there an extraction tax? Wyoming doesn't have an income tax and they're also proud that they're the 50th state in teacher salaries. Nevada has gambling. So they all seem to have something that pays the bill, and ours happens to be income tax. What can we

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do? [LB1097]

JIM VOKAL: Well, certainly I acknowledge that other states have other characteristics and variables that lead to that migration. I will say that the migration that Travis Brown analyzed via the tax returns that have left Nebraska, it's not the most wealthy in Nebraska. The average AGI was approximately \$44,000 leaving the state of Nebraska. But with that said, as I stated before and the plan that we released in the fall, we do have a specific funding source that included the expansion of sales tax on services, which as the Tax Foundation, I'm sure, will say behind me in their testimony, is less harmful to those in Nebraska. [LB1097]

SENATOR HADLEY: Okay. Senator Schumacher. [LB1097]

SENATOR SCHUMACHER: Thank you, Senator Hadley. This summer, or maybe it was the fall, the Revenue Department released a study based upon a super-duper computer model that they have called the TRAIN model. [LB1097]

SENATOR HADLEY: TRAIN. [LB1097]

SENATOR SCHUMACHER: TRAIN. Nothing to do I think with engines and choo-choos. But at any rate, that indicated that if you were going to try to reduce taxes to stimulate the economy, you get more bang for your buck by reducing the sales tax and the income tax. Have you guys had a chance to look at that? [LB1097]

JIM VOKAL: Well, I will defer to the research done by the Tax Foundation that states that income taxes on both corporations, first, and on individuals, second, are more harmful than both sales tax and property taxes. [LB1097]

SENATOR SCHUMACHER: But that is kind of applied from national data and may not be a different world. This particular model was run on Nebraska. I guess my question: Have you looked at that, at all? [LB1097]

JIM VOKAL: We haven't, but I would be happy to look at it and follow up with any sort of follow-up research. [LB1097]

SENATOR SCHUMACHER: Thank you. [LB1097]

SENATOR HADLEY: Okay. Any other questions? [LB1097]

JIM VOKAL: Thank you, Senators. [LB1097]

SENATOR HADLEY: Thank you, Mr. Vokal. Next proponent. [LB1097]

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SCOTT DRENKARD: (Exhibit 33) Thank you, Chairman Hadley, members of the committee. My name is Scott Drenkard, S-c-o-t D-r-e-n-k-a-r-d. I'm an economist at the Tax Foundation. I'm pleased to have the opportunity to speak today regarding LB1097. We take no position on legislation but I hope to give a review of our understanding of tax policy across the country and our survey of economic literature on taxes and growth. As Jim Vokal mentioned, in October 2013 we, in partnership with the Platte Institute, published a book entitled, Building on Success: A Guide to Fair, Simple, Pro-Growth Tax Reform for Nebraska. In it we detail reform recommendations in line with the principles of sound tax policy. Those are simplicity, neutrality, transparency, and stability. Many of the findings I'll note today are discussed in more detail in that primer. The first proposal I'd like to address is the reduction of the corporate income tax over the next few years. LB1097 reduces the top corporate rate from 7.81 percent to 5.9 percent. That makes Nebraska competitive with more of its neighbors. Colorado, Missouri, Kansas, they all currently levy lower rates. South Dakota and Wyoming don't levy corporate income taxes at all. More importantly, though, corporate income taxes are generally found to be among the most harmful taxes to economic growth. The economic literature that distinguishes between types of taxes provides very compelling evidence that corporate income taxes hurt growth most, followed by personal income taxes, then sales taxes, and finally property taxes least. Add to this fact that corporate income taxes represented just 2 percent of Nebraska's state and local collections in 2011, and in many ways corporate tax reductions are a high bang for your buck strategy to increase growth without costing the government a lot of revenue. Finally, economists agree that corporate income taxes are not even borne by corporations themselves. While corporations cut the check to the Department of Revenue, the tax burden is actually passed on in one of three ways. It's passed on to consumers in the form of higher prices, to workers in the form of lower wages, or to shareholders in the form of lower dividends. Another element of this bill lowers the top individual income tax rate from 6.84 percent to 5.9 percent by 2018. The bill cuts taxes on the lowest bracket immediately and then phases in reductions to upper brackets. These upper brackets are often what matters most to business activity though. We often forget that some businesses file through the individual income tax code rather than the corporate tax code. Nationwide, roughly half of all business income is filed through the individual income tax code. So these individual income tax work in concert with the corporate income tax cuts and promote growth and a more attractive business locale. In the economic literature, excessive taxes on income are found to discourage wealth creation. In a study of major articles on taxes and growth, as Jim mentioned, the 2012 Tax Foundation report found personal income taxes are among the most destructive to growth, being outdone only by corporate income taxes. For example, there's a 2011 OECD study by Arnold et al. which found that reductions in the top marginal rate of individual income taxes reduces (sic--raises) productivity growth. Another study examining the period between 1969 and 1986, Mullen and Williams, found that higher marginal tax rates reduce gross state product growth. This finding even adjusted for overall tax burden of the state, which lends credence to the principle of broad bases and

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low rates. So reducing these rates not only improves Nebraska's standing against other states, which I know is a concern, but improves the well-being of Nebraskans today and tomorrow. Finally, the proposal to inflation-index Nebraska's income tax brackets protects taxpayers against automatic tax increases that currently occur each year without legislative vote. Without this vital measure, taxpayers will see more and more of their income subject to higher brackets of taxation as inflation increases wages on paper but not in purchasing power. This is one area where even the federal government has it right; the federal income tax has been adjusted for inflation every year for the last three decades. So while the changes I mentioned are positive reforms, there are still a few options for making this plan better. In the individual income tax code, Nebraska would still have a provision called income recapture. This provision provides...excuse me, it applies the rate of the top income tax bracket to previous taxable income after taxpayers cross the top bracket threshold. I see this provision which only three states have as a rather stealthy way of raising additional tax revenue, and it's highly rare. The only other two states that have this provision are Connecticut and New York, which are generally not states that have tax codes that we seek to emulate. Another option for further tax reform is to enact automatic rate cuts for future years that are based on the balance of the state's surplus or the rainy day fund. West Virginia has been phasing down its corporate income tax rate using this method for the last three years, and North Carolina employed this method during their hallmark tax reform of the 2013 session. Because these cuts are contingent on stable revenue growth, I see this as a very viable pathway, especially based on the conversations that we've had here today that allows policymakers to make the state more competitive without fear of harming revenue streams. So with that, I thank you for your time. I look forward to your questions. [LB1097]

SENATOR HADLEY: Thank you. We appreciate very much you coming in, Mr. Drenkard. You talk about research on tax policy across the country. [LB1097]

SCOTT DRENKARD: Um-hum. [LB1097]

SENATOR HADLEY: How is Kansas coming along? [LB1097]

SCOTT DRENKARD: We were actually critical of a lot of elements of the Kansas tax cut. I think structurally the way it was put together, they didn't take a broad-bases low-rate approach. They ended up exempting small business income, which I would have favored...you know, favored broad bases and low rates in all taxes. And if you're going to have a tax cut, you should apply it across the board. And Kansas, the biggest problem with that, with that tax package, was it exempted all pass-through income. So that makes it competitive in a certain area, but I would have rather have seen a more equitable cut across the board on personal income taxes. There was some other spending problems as well. I mean, if you followed the way that that tax cut was passed, it was kind of passed by accident. There wasn't a traditional legislative sort of back and

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forth on it. It passed the houses in an interesting order, if I remember correctly. So they had to double back the following year and corrected some of the problems but not all of them. [LB1097]

SENATOR HADLEY: Do we run that risk? We've got...we're almost halfway through our short session. We've got 30 working days left. Do we want to overhaul our income tax code significantly and we're getting almost past the halfway session. [LB1097]

SCOTT DRENKARD: Um-hum. Well, from what I see in this current bill, I don't see any funny business per se. These are rate cuts. It's bracket reductions. It seems to be done in an across the board fashion. So I don't share that same concern for the bill that's before me. [LB1097]

SENATOR HADLEY: Senator Schumacher. [LB1097]

SENATOR SCHUMACHER: I bet you're one of the few people that came to Nebraska for the weather. (Laughter) [LB1097]

SCOTT DRENKARD: Well, you know, I'm worried about getting back home actually. (Laugh) [LB1097]

SENATOR SCHUMACHER: I understand it's pretty bad out there. [LB1097]

SCOTT DRENKARD: It is. [LB1097]

SENATOR SCHUMACHER: Last year we had a real...about a hundred million dollars better than that of our boost in our reserves can be attributed to the fear factor on the fiscal cliff that there was going to be big changes at the federal estate tax level, federal corporate levels, and changes which never happened. But did you see that nationally, a big surge of revenue because people were panicking over that situation? [LB1097]

SCOTT DRENKARD: Well, certainly the federal government doesn't help in terms of...you know, I mentioned one of our principles is stability. They have the...the federal government has the problem or has, at least especially last year, of not really passing a budget or having...we didn't know what the tax plan was going to be until an hour before it went into place. Yeah, I think a lot of people struggled with the way that they structured their budgets because of that. [LB1097]

SENATOR SCHUMACHER: And did you see...I mean, from your studies nationally, was there...did other states see what we saw, a hundred million dollars' worth of panic revenue move in? [LB1097]

SCOTT DRENKARD: Of panic revenue... [LB1097]

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SENATOR SCHUMACHER: Right, because people did things that triggered taxable events and then they had to pay a tax. We cashed out about \$125 million, give or take, out of that deal. [LB1097]

SCOTT DRENKARD: I couldn't provide specific figures, but I do know that, you know, estate planners were suggesting that people should take advantage of lower...estate planners and financial planners were suggesting that people should take advantage of lower capital gains rates before they were raised and marginal tax rates that were likely to go up. [LB1097]

SENATOR SCHUMACHER: So that fear is now gone. We probably can't look for that picnic to happen again. [LB1097]

SCOTT DRENKARD: I'm not...I'm...the federal government...I'm lucky that I'm not on the federal team, because I don't know what's going on there, but. [LB1097]

SENATOR SCHUMACHER: They're probably cleaning the runways out at National right now for you. Thank you. [LB1097]

SENATOR HADLEY: Any other questions? I guess we heard from a lot of economists in our Tax Modernization study, and a common theme seemed to be lowering the rates and broadening... [LB1097]

SCOTT DRENKARD: Sure. [LB1097]

SENATOR HADLEY: ...the base is the most appropriate way to go about this type of situation. Is that a true economic principle that is espoused by most economists? [LB1097]

SCOTT DRENKARD: That is...yes, that is the corollary to the principle of neutrality. This is the idea that you want a tax code that collects revenue for government services, and the tax code is best when it collects revenue for government services but does not distort behavior. So, for example, let's apply that to the corporate code. That means you have a rate that's relatively low but you don't have a multitude of credits that give out special preferences to businesses that are engaging in whatever the activity is you want to encourage them. The idea is not that there aren't things that we want to encourage; the idea is that we want a tax code that is neutral. We want it to have a low rate that applies to everybody and not one that has preferences built in. [LB1097]

SENATOR HADLEY: And I'll be honest, this is where LB1097 falls down, because it does nothing whatsoever to broaden the base. All it does is lower the rates, which to me in my simple mind means that you've either got to use the reserve, cut spending, or do

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something like that. Because, you know, if you're not broadening the base or shifting to another tax, it is not revenue neutral. It will be by definition a loss in revenue. [LB1097]

SCOTT DRENKARD: Sure. My understanding is that the Cash Reserve is at \$1.2 billion and... [LB1097]

SENATOR HADLEY: That's the checking account. [LB1097]

SCOTT DRENKARD: Okay. [LB1097]

SENATOR HADLEY: That's what we count the first of every month and we pay... [LB1097]

SCOTT DRENKARD: Sure. [LB1097]

SENATOR HADLEY: I'm sure the...I bet the federal government has a pretty good-sized checking account, doesn't it? [LB1097]

SCOTT DRENKARD: (Laugh) I suppose so. The thing that rainy day fund experts usually recommend, is what the sort of range of estimates is, between 2.1 percent and 2.8 percent of revenue per year should go into the rainy day fund. And a lot of states got in trouble during the sort of fiscal fallout where they had not been contributing that much at that time. I think the balance is less important than making sure you're getting your contributions right. To me the rainy day fund is most important as a protection against future tax...calls for future tax increases when times get rough. [LB1097]

SENATOR HADLEY: Absolutely. [LB1097]

SCOTT DRENKARD: So I think that this bill does do some things that are really helpful to a rainy day fund. One of them is reducing the amount that the state leans on the individual income tax. One of the things that results in revenue streams is having a code that relies on individual income taxes and corporate income taxes to a large degree, especially if they are progressive. So that makes for a system that...those are the wages and those are the incomes that fluctuate the most during economic hardships. So if you can move away from those sorts of revenue sources, your rainy day fund becomes less important and less imperative. So I would say that the advice would be, heed the calls of what the experts say, which is around 2.5 percent of revenue should go into rainy day funds. But anything you can do structurally to your code to rely less on those volatile sources of income...volatile sources of revenue, like individual income taxes, corporate income taxes, is going to be beneficial for long-run stability of revenues. [LB1097]

SENATOR HADLEY: Just to follow up on that. I don't know if you know a lot about Nebraska, but raising taxes is a dirty word in Nebraska. And I agree. So that makes me

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very careful when I'm thinking about lowering taxes because, you know, you would...from an economic researcher standpoint, sometimes you can make the assumption, you know, you can lower taxes at times, you can raise taxes at times; and, you know, over a period of time, you could have a great tax system. But if you take out the ability to raise taxes, would you agree that you've got to be very careful in lowering taxes because if you lower them too far and don't have the opportunity to bring them back up. [LB1097]

SCOTT DRENKARD: Sure. The best method I've seen of dealing with that is the one that was employed in West Virginia and then later used by North Carolina in their 2013, you know, hallmark reform package, which is built-in automatic cuts into whatever bill was passed. You know, if you decide you want to go forth and do tax reform, build in, get everybody on the same train, the same pathway of building in automatic cuts that get you where you would like to go but only bring you there if you see revenue conditions that meet your satisfaction. So to me that would mean that...I think one hallmark...one marker you could lay out is, is revenue growing faster than population plus inflation? A lot of taxpayer bill of rights bills sort of lay that out as one marker. And I think that's an appropriate level of growth for government, and you could say if you're growing at a level that's faster than that, you can go forward with some amount of cuts based on what the revenue growth is. [LB1097]

SENATOR HADLEY: Scott, thank you, sir, very much. I can tell you, as an academician, it is a lot easier to talk about it from an academic standpoint than it is sitting here. So thank you very much. [LB1097]

SCOTT DRENKARD: Thank you again for your time. [LB1097]

SENATOR HADLEY: I wanted to be an economist but I ended in accounting because I just didn't have enough personality. (Laughter) Next proponent. [LB1097]

ANN POST: I guess it's "good evening" by now, right? [LB1097]

SENATOR HADLEY: Getting close, yes. [LB1097]

ANN POST Good evening. My name is Ann Post. I'm here before you today on behalf of the Lincoln Independent Business Association to support LB1097. I'm going to truncate my testimony a little bit due to the very educated people who have testified before me and will testify after me. That's Ann Post, A-n-n P-o-s-t. So LIBA supports LB1097. We support it because the tax cuts, the individual and corporate income tax cuts proposed by LB1097 would help to ease the high tax burden on Nebraska's citizens, on Nebraska businesses. It would increase the competitiveness of Nebraska businesses within today's mobile economy and overall work to grow our economy and our tax base. LIBA feels that Nebraska needs to adjust its tax rates to stay competitive with neighbor states

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and to retain the middle- and high-income earners within our state. Today's economy is more mobile than ever. Our highly skilled workers can work from anywhere in the country, and many times they do. This information isn't simply theoretical. I know that earlier this week we talked to a CPA, Bob Bryant, here in Lincoln, who told us that as a CPA he can verify that the higher income tax professionals have opportunity to avoid Nebraska's taxes by relocating to lower tax locations. In fact, he...when he works with those individuals, they continually consider state income tax when preparing plans for a business expansion or a retirement plan. While someone can relocate to a lower tax state and realize savings of up to \$10,000 a year, Nebraska will continue to see an outward migration of their higher income taxpayers. Economic research has found that economic growth is faster in states with lower income tax rates...or with lower tax rates, and that includes lower income tax rates. And this is simply because the less money that employers are paying in taxes, the more they have free to invest in their business to expand the productivity of their business and the productivity of their work force, thus we believe that these cuts in income taxes will work to grow Nebraska's economy; and therefore, LIBA would like to support LB1097 and ask this committee to do the same. [LB1097]

SENATOR HADLEY: Thank you, Ms. Post. Are there questions? Senator Schumacher. [LB1097]

SENATOR SCHUMACHER: Thank you, Senator Hadley. And thank you for your testimony. When those high-income people, the professionals, look for that \$10,000 a year in tax cuts as a decision maker, do you think that's somewhat offset by the fact that we have 90 percent of the cost of living here in this state than they may in those other states? Or that they don't have to pay \$10,000 to \$20,000 a year tuition for each kid in grade school in order to get a decent education, that they have to put them in private school? [LB1097]

ANN POST: Sure. I'm sure that as many people before me have said, the tax rate is one among several factors. And that's also one reason that this bill works to incrementally lower the tax rate instead of get rid of it altogether, because it is one among several factors. And I'm sure the cost of living is one of those; our schools are one; but taxes are another. [LB1097]

SENATOR HADLEY: Since this bill does not broaden the tax base and basically just lowers the rates, I think it's a fair assumption that we're going to have to cut expenditures. Has LIBA taken a position of where we should look at in our appropriations to cut \$150 million, \$200 million, out of our state budget? [LB1097]

ANN POST: We have not taken a position as of now. I know the testifier before me had some great suggestions on how to raise some of that revenue and that we'd be happy to look a little bit more at that as suggestions arise. [LB1097]

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SENATOR HADLEY: But it's kind of rolling the dice, isn't it? Because if it doesn't turn out that we have more people coming to Nebraska, more income, and we cut the taxes, then we might have to cut the services on education, health and human services, universities. [LB1097]

ANN POST: Yes and no. It is kind of rolling the dice. At the same time this is an incremental tax cut right now, which means that we can work to see exactly how much economic growth we're going to see from that and see how much we're going to project over the years; and also if it turns out to be a gamble that Nebraska can't afford, we have a Legislature every year that can do something about it. [LB1097]

SENATOR HADLEY: Do you really think that's possible that a future Legislature could come in here and we pass this tax cut and they...we...then people consider this a tax increase in future years? [LB1097]

ANN POST: I think that it may be if it's necessary, if people are seeing the cuts. I also think that instead of...that one thing that could be done and would be more palatable would be to maybe freeze the tax decrease where it is that current year instead of decreasing it further. [LB1097]

SENATOR HADLEY: Okay. Thank you. Any further questions? Thank you, Ms. Post. [LB1097]

ANN POST: Thanks. [LB1097]

SENATOR HADLEY: The next proponent. [LB1097]

JOHN CEDERBERG: Good afternoon. I'm John Cederberg, J-o-h-n C-e-d-e-r-b-e-r-g. I'm a CPA here in Lincoln, and I came over this afternoon on behalf of myself. In the nature of full disclosure, I am the elected treasurer of the Nebraska Chamber of Commerce and Industry, but I'm not here representing them today. Since it's late in the afternoon, I'm going to make four brief comments that I had planned to make and then invite questions whether or not I actually covered them in my comments; but I do have some experience over here and sometimes one or another of the senators wants to draw on that. Senator Hadley has already identified my first comment and that is that a tax revision of this nature should be prospective because it should get the revenue projection ahead of the budgeting process. And so as Senator Harr kind of concurred in his opening, I came over prepared to recommend that the effective dates be moved back so that they only affected the next biennium so that the impact of whatever we pass could be reflected in the Appropriations Committee's deliberations for the next biennial budget. That is just good tax policy that you not change the revenue remarkably after you've adopted the biennial budget. My other three comments have to do with

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policy. I didn't walk over to defend any of the specific numbers or rates or brackets in the bill, but there are three policies in it that I strongly support, one being the indexing of brackets. The federal government, as the man from the Tax Foundation mentioned, has done this for a couple decades. Most states do it. It gets the automatic tax increase out of the political arena, and I think that is a very appealing aspect or element of this legislation. The second policy that I strongly support, and you heard me--those of you who...well, I guess you were all on the Tax Modernization Committee as well as some people from outside the committee--that I think it's very important that long term we establish parity of corporate and individual rates. We have a history in this country actually of corporate rates slightly lower than individual rates, the point being to recognize the second level of tax on C corporation dividends. Except for just a few years after the 1986 Tax Reform Act, even the federal government has typically had corporate rates less than individual rates, and they do have that now. I don't think that's necessary in Nebraska because we're primarily a small business state--a closely held business state I should have said maybe, because we have some very large closely held businesses, some of which are in pass-through form as has been mentioned, and are taxed at individual rates; and some of which cannot take advantage of individual rates for various reasons. And our present situation discriminates those against...or against those who cannot. And so I think it's a very important policy objective to establish parity. I've said that before to this committee. The third policy that I really like is the phasing in. And I didn't come over specifically to...specifically to support those particular years; but the concept of phasing in, if you're going to accomplish major tax revision--and I'm not going to call this tax reform because I think reform says we were doing something bad and we're going to stop doing something bad, and I'm not sure that we've been doing anything bad--but if we're going to accomplish major tax revision to improve our standing and our competitiveness, I believe that we need to do it over a period of time so that we can accommodate our budgets to whatever it is that we agree that we're going to do. I would not be...you know, I think with the Tax Modernization Committee having met all summer, that we know what we're doing. I do not...I have more faith in your senators...or your colleagues, Senator, than you do. I'm prepared for you to make important moves in 30 days. But those are my comments. I think we are prepared to go forward and you've got to start someplace, and the place to start is before the next biennial budget. With that, I'd invite any questions. [LB1097]

SENATOR HADLEY: Any questions for John? Seeing none, thank you very much, John. Next proponent. Seeing none, first opponent. [LB1097]

MIKE MARVIN: (Exhibit 34) Good afternoon again, Chairman Hadley and members of the committee. I am Mike Marvin, M-i-k-e M-a-r-v-i-n. I'm the executive director of the Nebraska Association of Public Employees, the union representing the vast majority of the executive branch state employees. I'm here today, I want to thank the Tax Modernization Committee for the diligent work that they did during that time. We believe that that is a necessity that you take a strong look at what you're doing, think it through,

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talk it through, see if it's going to fit. We don't believe that this bill fits that criteria. We believe that this bill is maybe a Governor's wish list. I was going to talk some more about Kansas but you're all very versed in what's going on down in Kansas. You know, the job growth is not there that was promised. I gave you those charts earlier and told you about the Gallup study. In addition to the K-12s though, there are issues at the state colleges and the universities. What they did...the way they did things was not fiscally responsible. We think that the work that your committee did approached things in a very fiscally responsible manner. As we're looking at things, Senator--I'm sorry that Senator Hansen is gone--he asked Mr. Vlcek earlier if we would just oppose all tax cuts; and we do not. We really looked at Senator Davis', and if you're really looking at something, that looks like another well-thought-out thing. Maybe you can look at it and make it revenue neutral. Although one of the previous testifiers said the wealthiest taxpayers in this state are not migrating because of their tax rates. It's not happening among the wealthiest, so I guess that's not a concern anymore. I think you should really look hard at that. Now as you talked about the budget going forward, we've got some serious issues that are going to be coming up. Who knows what prison reform is going to cost; that there's going to be a lot of things going on. ACCESSNebraska maybe would have to be reviewed and redone. We need to take prudent steps. We don't need to take a bill like this and move it out. So with that, I will conclude my testimony. And I want to thank you for all your time this afternoon. Hopefully you'll get out of here to eat dinner very shortly. [LB1097]

SENATOR HADLEY: Mr. Marvin, they pay us...we should probably hire you. They pay us \$5.97 on our check per hour. [LB1097]

MIKE MARVIN: They won't let me negotiate for the legislative branch or judicial branch, so. [LB1097]

SENATOR HADLEY: Thank you. We appreciate it. [LB1097]

MIKE MARVIN: All right. Thank you. [LB1097]

SENATOR HADLEY: Okay. Next opponent. [LB1097]

RODNEY VLCEK: Good evening. Chairman Hadley and members of the committee, my name is Rodney D. Vlcek, R-o-d-n-e-y, middle initial D, last name V-l-c-e-k. I'm president and secretary/treasurer of the Nebraska State AFL-CIO and I am here to testify in opposition to LB1097. Since the late 1970s, we have seen a disturbing trend in the relationship between the purchasing power of average wages and the productivity of the American worker. Up until about 1975, productivity and wages increased at roughly the same rate. The ratio of a CEO's pay to the average worker was stable at roughly 20:1. Unfortunately, something dramatically happened during the tail end of the Carter administration. Wages adjusted for inflation stagnated while productivity continued to

increase. Consequently, top earners began absorbing a disproportionate amount of the limited capital available. Today the average CEO makes 350 times as much as the average worker. The problem of income inequality has been exacerbated by tax policies pursued on both the state and national level. These policies have benefited individuals at the top through decreased tax burdens on both earned and invested income under the assumption that gains would trickle down through business expansion. Thirty years of this experiment have disproven this assumption. Instead we have seen increased income concentration at the top primarily in the financial sector and a decrease in the purchasing power of the middle class. Over 70 percent of our economy is reliant on consumerism. We must have capital constantly changing hands to allow businesses to expand and create jobs. Our economy does better when we all do better. Tax policies like LB1097 may appear to increase economic activity, but they actually pull money out from the economy and harm its stability. A person making 40 times the median income will never consume at 40 times the rate of an average worker. Analysis of LB1097 by the Institute for Taxation and Economic Policy published by the OpenSky Policy Institute, estimates that 16 percent of the tax benefit will go to Nebraska's top 1 percent of wage earners. This translates to a \$6,600 per year tax break for earners making at least \$388,000 a year. However, an average middle-class Nebraskan making between \$37,000 and \$60,000 would only receive a \$239 per year benefit, all in over a 61 percent of total tax (inaudible) where the top 20 percent of wage earners are those earning over \$92,000 per year. This is not the middle-class tax relief that Governor Heineman claims it to be nor is it the kind of tax policy that Nebraskans want nor will this bill be without costs. Over the past year the Tax Modernization Committee, of which many of you were members, traveled the state and received input from Nebraska families. Whether urban or rural, farmer or teacher, the response was overwhelmingly one-sided: Nebraskans want this committee and the Legislature to take steps to provide property tax relief and not pursue policies with little benefit for Nebraska's working families. This bill would make it significantly more difficult to accomplish that goal. During the recession, the state cut funding for education, stopped aid to cities and counties, and trimmed nearly every area of our budget. This forced many municipalities and school districts to increase their property tax levies. It is our position that any policy with the goal of reducing the tax burdens for Nebraska's working families must look to restore this funding and provide a majority of its benefit to middle-class citizens. Unfortunately, not only does LB1097 not take steps to do this; its enormous costs will make it nearly impossible to maintain education funding at its current level, and absolutely impossible to help our municipalities plug holes in their budget. Based on the fiscal note, the cost of this bill in fiscal year 2018-2019 alone totals \$650 million. The overall cost to the General Fund now and fiscal year 2019 is a staggering \$2.3 billion. This is not sustainable policy, not smart economics, and certainly not what Nebraskans are asking for. Thank you for allowing me the opportunity to testify, and I'd be happy to take any of your questions. But one thing I do want to comment on, to you Senator Sullivan, through my travels throughout the state, education K-12 is very important to my constituents, whether it's our CLCs, our state councils. And as a resident of Lincoln,

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we just overwhelmingly voted a bond issue, if you're not aware of, by a 2-1 vote. Education is very important and we do not want to see any more cuts. In fact, we would adamantly oppose it. We fund education, so. With that I'll be happy to take any of your questions. [LB1097]

SENATOR HADLEY: Any questions? Seeing none, thank you. [LB1097]

RODNEY VLCEK: Thank you very much. And thank you again to the Tax Modernization Committee. We appreciate it. [LB1097]

SENATOR HADLEY: Next opponent. [LB1097]

RENEE FRY: (Exhibits 35 and 36) Good evening, Chairman Hadley and members of the Revenue Committee. My name is Renee Fry, R-e-n-e-e F-r-y. I'm the executive director of OpenSky Policy Institute. We are here today in opposition to LB1097 which, like LB721, would do little to benefit the middle class, would devastate the state budget, lead to dramatic cuts to schools, and increase property taxes for Nebraskans. This is not an end. People don't move for taxes. Trickle down doesn't work. We can look at Kansas and their low job growth. We can look at the Department of Revenue tax burden study. Cutting taxes will leave a huge revenue loss. Passing LB1097 would turn the \$109 million surplus projected to accumulate by the end of FY '17 into a \$929 million shortfall, a swing of more than \$1 billion, which would be equivalent to about one full year of TEEOSA funding. This means the Legislature would pass on to future lawmakers the largest projected shortfall since at least 1997, which is how far back our data goes. Revenues and spending have been declining as a share of the economy for years. In the handout you can see that General Fund spending as a share of the economy has already declined more than 12 percent since FY '99. If LB1097 is passed and no other taxes are raised, spending will have to decline by another 10 percent in just the next three years. By the time it's fully implemented, the bill will cost \$594 million, which is more than 12 percent of the General Fund. The cuts required under LB1097 would drive funding for education and other critical services down even below the levels seen during the recession. The required annual budget cuts would be equivalent to the salaries of more than 11,000 teachers. Some have touted LB1097's value to the middle-class Nebraskans. And one proponent of the bill said in a Lincoln Journal Star article, that the biggest benefit of LB1097 will go to those who earn between \$50,000 and \$120,000. But if you look at the handout, you can see that the majority of the benefit would go to the state's highest earners. Proponents have also said that income tax cuts would benefit Nebraska's small businesses; but nationally only 2.7 percent of all personal income taxpayers are owners of small businesses that have any employees other than the owners. Even if you eliminate the state income tax, the savings would not be enough for most small businesses to hire even one full-time worker. Regarding LB1097's corporate income tax cut, research shows such measures have little if any effect on growth. As seen in the handout, states with low or no corporate income tax

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rates do not outperform states with relatively high corporate income tax rates. That's because corporate income taxes account for a very small share of expenses for a business. The Tax Modernization Committee found Nebraska's corporate income taxes are not out of line with the rest of the country, as we are below the national average in terms of reliance on corporate income taxes and just slightly above the regional average. Furthermore, Nebraska offers corporations many credits and deductions that keep many corporations from paying the state's top corporate tax rate. We were unable to get copies of the reports by Ernie Goss and Eric Thompson, which touted income tax cuts as a way to grow the economy. We did, however, see the charts given to legislators. We were unable to replicate the Goss chart showing our taxes were the highest in the region. That contradicts any data that we can find. The tables that have been passed around, in Figure 4 in front of you, are calculations based on U.S. Census Bureau and U.S. Bureau of Economic Analysis data on state and local taxes and spending, shown both on a per capita basis and as a share of personal income. These are the same measures used in the Legislative Fiscal Office's report to the Tax Modernization Committee and included in the final report of the committee. Nebraska is not a high-tax state or a high-spending state by any of these standard measures. We rank 20th to 22nd in the nation, and 3rd to 5th in the seven-state region in state and local taxes. For spending, we rank 29th to 33rd in the nation and 4th to 5th in the region. Wyoming and South Dakota are often referenced in discussions about why Nebraska should cut taxes, but Wyoming spends almost twice as much per capita as we do in Nebraska, and we spend only slightly more than South Dakota. And while some researchers say income tax cuts would grow economies, we know of many others who would say there is no clear link, including Northwestern University professor Therese McGuire who told lawmakers last month that the link between taxes and economic growth is far too weak to justify policy changes such as income tax cuts in the name of economic growth. According to the news reports on Goss and Thompson's studies, and as Senator Hadley mentioned earlier, it appears they offered revenue offsets in their suggestions, but LB1097 would do nothing to make up for the revenue losses it would create. This makes it similar to cuts that have devastated Kansas' budget. Like LB721, LB1097 would run counter to the Tax Modernization Committee's findings that our tax code doesn't need drastic changes and it would increase property taxes, particularly in rural areas for some of the same reasons we noted in our LB721 testimony. Finally, as we also noted in earlier testimony, there are several proposals in front of the Legislature that would be more economically beneficial to Nebraska than the income tax cuts proposed in LB1097. Thank you for your time and I would be happy to answer any questions. [LB1097]

SENATOR HADLEY: Any questions for Ms. Fry? Seeing none, thank you. [LB1097]

RENEE FRY: Thank you. [LB1097]

SENATOR HADLEY: Next opponent. [LB1097]

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JASON HAYES: (Exhibit 37) Good evening, Senator Hadley and members of the Revenue Committee. For the record, my name is Jason Hayes. I am here...or J-a-s-o-n H-a-y-e-s. I am here today representing the 28,000 members of the Nebraska State Education Association. NSEA is opposed to LB1097. And in the interest of time I will submit my written testimony, and I'll conclude by saying that NSEA is focused on ensuring every student in our state has access to a quality education. Senators, you and your legislative colleagues play a key role in that effort. We ask that any tax modification this committee chooses to advance not harm the state's ability to continue to provide adequate state aid to education and funding for other essential public services. And I thank you for your work on this issue. [LB1097]

SENATOR HADLEY: Thank you, Mr. Hayes. Any questions? Seeing none, thank you. [LB1097]

JASON HAYES: Thank you. [LB1097]

SENATOR HADLEY: Next opponent. [LB1097]

AUBREY MANCUSO: (Exhibit 38) Good evening, Senator Hadley, members of the committee. My name is Aubrey Mancuso, A-u-b-r-e-y M-a-n-c-u-s-o, and I'm here on behalf of Voices for Children in Nebraska. The day has gone long so I'll keep my comments short. Nebraskans really value the good life we have worked to create in this state, and many of the positive things about our state are the results of thoughtful collective investments that have been made over generations. We're opposed to LB1097 because the income tax cuts contained in the bill primarily benefit higher income Nebraskans, and the bill would create a significant budget shortfall without a way to pay for it. In general, we're not opposed to cutting taxes, but we believe those taxes should be targeted towards Nebraska's low- and middle-income families. We also believe that any tax cuts that would create a significant budget shortfall should identify how that revenue loss would be accounted for. Because LB1097 does not identify how we would address the budget shortfall, we can only assume that the intention is to pay for it with cuts to programs and services. Many of these programs, like public education and Medicaid, are vital to the quality of life for our state's children and not possible without stable revenue. So we urge the committee to respectfully not to advance this bill and to remember the next generation of Nebraskans. Thank you. [LB1097]

SENATOR HADLEY: Thank you. Any questions? Seeing none, thank you. Next opponent. [LB1097]

JENNIFER CARTER: (Exhibit 39) Good evening, Chairman Hadley and members of the Revenue Committee. My name is Jennifer Carter, J-e-n-n-i-f-e-r C-a-r-t-e-r, and I'm the director of public policy for Nebraska Appleseed. The structure of our tax system has a

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critical and foundational impact on Nebraskans and all that makes our state the good life; and for that reason we are very grateful for the Tax Modernization Committee and the thoughtful and deliberative process that you all went through, and actually for the discussion here today as well. As advocates for low-income and working families, access to healthcare, and children in foster care, we're focused on what the impact of a proposal like this would have on those communities. So we are opposed to LB1097 because it would have a devastating effect on our state's revenue and we are afraid would put our families and this good life that we have built at risk. Thousands of Nebraskans rely on programs that we fear, as has been discussed today, might be at risk for cuts or total elimination; such programs, like childcare to support working families, access to needed healthcare for low-income children, families, and seniors, and other programs that provide for a family's most basic needs. Another key investment that we have begun focusing on very much in the last several years is really promoting increased access to education and training. And Nebraska has really been forward thinking in this, in recent years, and we are afraid that without adequate revenue we wouldn't be able to continue to invest in our work force and creating a skilled work force. Given the size of the depletion of revenue in LB1097, we are concerned it would have a destabilizing effect and really sort of force some policy decisions without a broader conversation. The small decrease in taxes that lower- and middle-income families would see under this bill would not actually make up for the devastating cuts in some of these potential programs. Our understanding is it might amount to, at most, \$20 a month. But that would not be remotely enough to provide a family with the means to make up for childcare assistance costs, afford a healthcare premium, or even in many cases keep food on the table. And so...and it certainly cannot replace key community institutions like good schools. So as this committee knows better than anybody and as has been demonstrated by the questions today, we have to have a broader conversation and contemplate the trade-offs when we would reduce revenue in such a significant way. And so we would...we believe we need to have that conversation before we could make a cut to revenue in this way and how we would offset that. So we believe the Tax Modernization Committee started this conversation and we would appreciate if that conversation could continue before we make such a radical shift in our tax system. With that, I would be...and so we would ask that you indefinitely postpone LB1097. [LB1097]

SENATOR HADLEY: Any questions for Ms. Carter? Seeing none, thank you. [LB1097]

JENNIFER CARTER: Thank you. [LB1097]

SENATOR HADLEY: Thank you for staying. [LB1097]

JENNIFER CARTER: Oh, sure. [LB1097]

SENATOR HADLEY: Next opponent. [LB1097]

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MARK INTERMILL: (Exhibit 40) Good afternoon, Senator Hadley and members.
[LB1097]

SENATOR HADLEY: Good afternoon, Mark. Good evening, Mark. [LB1097]

MARK INTERMILL: Evening. Evening. AARP is opposed to LB1097 on the basis of revenue adequacy and progressivity. But what I wanted to share with you this evening is the results of survey research we've done on taxation over the last couple of years. In November 2013, we conducted a survey of Nebraskans and we found that there are concerns among Nebraskans about the fairness of the state and local tax system. And given that, we have the lowest 20 percent pay about 11 percent of their income. That was a precursor to the question that was asked, and the top 1 percent pay less than 6 percent. So we followed up with a question: Is this a fair taxation system? Twenty-two percent described the system as not too fair; 43 percent said not at all fair; 5 percent, that was extremely or very fair; and there were...the remainder of the 807 Nebraskans that we surveyed didn't know or didn't respond. We asked a follow-up question to try to get some insight into what direction Nebraskans believe policy should go. Only 3 percent of the respondents said that lower-income taxpayers should pay a higher percentage of their income for state and local taxes than higher-income taxpayers. The balance was split relatively evenly between those that thought that the percentage should be about the same across all incomes, and that was 46 percent; and 44 percent said that higher-income people should pay a higher percentage of their income than lower-income individuals. We did...we had conducted another survey back in December 2012 which was an AARP member survey. And in that survey we were trying to determine what are the expenses that are providing or causing some difficulty in the budgets of our members. So we asked about utilities and different types of household expenses that people might have, including taxes. And I do have an attachment that shows the responses. What we found was that none of the respondents with incomes over \$75,000 indicated that they were...that the cost of state income tax was a large burden on their budgets. And about 3 percent...4 percent, I guess, said that it was somewhat of a problem for being able to afford that cost. Those individuals at lower incomes were the ones that seemed to have a greater burden...feel a greater burden of those different state and local taxes; and of the income tax of those under \$30,000 we had about three times the rate that found it extremely or very burdensome than those who were above \$75,000. So based on the two surveys, I conclude that LB1097 would establish tax policy that's supported by only 3 percent of Nebraskans, and that only 4 percent of our members who are most likely to benefit from it actually feel they need it. So for that reason we would urge the committee to indefinitely postpone LB1097.
[LB1097]

SENATOR HADLEY: Thank you, Mr. Intermill. Questions? Seeing none, thank you, Mark, and thanks for staying. [LB1097]

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MARK INTERMILL: Thanks. [LB1097]

SENATOR HADLEY: Any other opponents? Anyone in the neutral? [LB1097]

ERIC THOMPSON: Chairman Schumacher and members of the committee, my name is Eric Thompson. Did I get that wrong? I'm sorry. Let me start by saying I don't attend these events as often as I should, and it's been very interesting to hear the discussions. And because of that I...forgive me for my mistake. My name is Eric Thompson, E-r-i-c T-h-o-m-p-s-o-n. I'm associate professor of economics at the University of Nebraska-Lincoln, and also I guess I'm representing the Bureau of Business Research where I am the director, which is also over at UNL. I appreciate the opportunity to speak with you today. I am neutral in my testimony, as I recognize that the committee, the Legislature, the Governor have a difficult choice. Marginal tax rates are...reducing marginal tax rates is an effective way to enhance economic growth in the state. However, certainly many Nebraskans appreciate the services that are received from state government and value those, and it is therefore a difficult choice trading off growth for the continued provision of the same level of services, and that's why I'm neutral here today. I am prepared to argue that cutting marginal tax rates is a very effective way to encourage economic growth. There is a certain level of public service that is necessary, obviously. But at the level of taxes and services that are present in Nebraska currently, and really present in most U.S. states, there are growth advantages from cutting taxes and the level of public services. I've seen this in the literature that I've reviewed over my career. I've seen this in my own research which has found that cutting the overall tax burden encourages population growth in states and local areas; in particular, human capital formation or the migration of higher human capital workers, as well as is beneficial for the manufacturing industry. Now I'm speaking about the overall tax burden, I think it's even more effective to focus on cutting marginal tax rates and that would include the sales tax as well as the corporate and personal income tax. Although I would argue that cutting marginal income tax rates may be especially effective because it also effects investment decisions and therefore capital formation and human capital formation. It's important...I always try to tell people it's important to remember that the income tax is the human capital gains tax and it has a big effect on people's choices about education, choices about seeking promotions at work, and so forth. Now in terms of LB1097, I think there's a few features that are potentially beneficial that I would point out. First of all, there's a cut in marginal tax rates across the board, and so the marginal tax rates on low- and middle-income Nebraskans are also very important as well as that top tax rate. So one appealing feature of LB1097 is that it cuts marginal tax rates in all income groups. It also equilibrates the top corporate and personal income tax rate, which is important so that the people are choosing the particular way they organize their business according to other factors besides just what the tax rate is for different types of organizations. So, you know, I'll close how I started. It's a difficult decision that's faced: to continue to provide the same level of public services or provide

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somewhat less public services and more economic growth. [LB1097]

SENATOR HADLEY: Are there questions for Dr. Thompson? I...just a really, really quick one. A lot of times I know economists and scientists like to run experiments to... [LB1097]

ERIC THOMPSON: Um-hum. [LB1097]

SENATOR HADLEY: ...and do some modeling and that type of thing. When we have a state that's about 120 miles south of us that did a lot of these things, why wouldn't we wait a year or two to see how that all kind of worked out down there? [LB1097]

ERIC THOMPSON: You know, that's something that I've been thinking...I'm sorry, were you done? [LB1097]

SENATOR HADLEY: No. I was just asking. [LB1097]

ERIC THOMPSON: This is something that I've been thinking about this afternoon because the topic of Kansas has come up quite a bit. And I do agree, I don't think we have enough data yet to know how these tax cuts are going to affect economic growth in Kansas. [LB1097]

SENATOR HADLEY: Okay. Thank you. Any other questions of Dr. Thompson? Thank you. Appreciate it. [LB1097]

ERIC THOMPSON: Thank you. [LB1097]

SENATOR HADLEY: Any other in the neutral? Senator Harr, would you like to close? [LB1097]

SENATOR HARR: Yes, please. First of all, I want to thank everyone for staying here so late. I want to thank, similar to Senator Janssen, all those who testified, especially those in the negative who did call ahead of time and let me know what their problems were with this bill. I appreciate constructive criticism. I think it helps make bills better. And now the work begins. We have seen a lot of bills. We have a lot of options out there. The sausage making begins where we decide what do we want to cut, what can we afford to cut, and what do we want to increase or what programs do we want. And we have to balance those two options and then hopefully come out with a solution that is best for the Nebraska taxpayer. The one thing I like about LB1097 is everyone who pays taxes gets a break. I think that's important, instead of picking winners and losers, which we have learned is not always optimal. So thank you very much. [LB1097]

SENATOR HADLEY: (See also Exhibits 41 and 42) Thank you, Senator Harr. Any

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questions? Thank you. With that we end LB1097 and we end the hearing for today.
Thank you for staying here. We appreciate the input. [LB1097]