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Tax Modernization Committee
October 17, 2013

[LR155]

The Committee on Tax Modernization met at 1:30 p.m. on October 17, 2013, at Metro Community College, Omaha, Nebraska, for the purpose of conducting a public hearing on LR155. Senators present: Galen Hadley, Chairperson; Paul Schumacher, Vice Chairman; Kate Bolz; Kathy Campbell; Tom Hansen; John Harms; Burke Harr; Charlie Janssen; Beau McCoy; Heath Mello; Jeremy Nordquist; Pete Pirsch; Ken Schilz; and Kate Sullivan. Senators absent.

SENATOR HADLEY: Welcome. We appreciate the great crowd. This...we have drawn a crowd from Scottsbluff to North Platte to Norfolk and now we're drawing a crowd to Omaha and we hope to draw a crowd tomorrow in Lincoln. Thank you all for coming. My name is Galen Hadley and I represent the 37th District which is, basically, Kearney. And we'll start out with introductions, if we want to start down on the right.

SENATOR PIRSCH: I will. I'm State Senator Pete Pirsch, representing the Legislative 4th District and parts of Omaha and Douglas County.

SENATOR BOLZ: Senator Kate Bolz, I represent south-central Lincoln in District 29.

SENATOR SULLIVAN: Kate Sullivan of Cedar Rapids, I represent District 41, a nine-county area in central Nebraska.

SENATOR SCHUMACHER: Paul Schumacher, I represent District 22 which is Platte and parts of Colfax and Stanton County.

SENATOR HANSEN: I'm Tom Hansen, from North Platte, District 42, Lincoln County.

SENATOR McCOY: Beau McCoy, District 39, western Douglas County.

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SENATOR MELLO: Heath Mello, District 5. And welcome to south Omaha.

SENATOR HARR: Burke Harr, Legislative District 8 and I represent the heart of Omaha.

SENATOR CAMPBELL: I'm Kathy Campbell and I represent District 25, east Lincoln and eastern Lancaster County.

SENATOR NORDQUIST: Jeremy Nordquist, I represent District 7 which is downtown and south Omaha, the "Sunshine District."

SENATOR HARMS: I'm John Harms, I'm from Scottsbluff, 48th District. I represent Scotts Bluff County.

SENATOR HADLEY: Thank you. We're going to get started but just a few rules before we get started. First of all, as I said, we appreciate your coming. If you'd turn off your cell phones, we'd appreciate that. There are sign-in sheets on the chair. Even if you don't testify, if you want to fill out a sign-in sheet and leave it, I believe the sign-in sheets are...there? Okay. And where should they leave them? You'll pick them up. And if you have any handouts, the clerks will pick them up. We do have some senators here, former senators also. Senator Mines, Senator Gay, Senator Crawford, Senator Lindsay, Senator Preister, Senator Gay, and Senator Krist. I think I...and who? Jerry Johnson. If I have missed anybody, I...Rich Pahls. Anybody I...this went on for about half an hour up in Norfolk before I got it all right. Just some ground rules before we start. We have a three-hour hearing and we're going to divide it, basically, into three parts. The first part, for an hour, we'll deal with property taxes; second part, sales taxes; third part, income taxes. But if you want to talk on two or more parts or all of taxes, please come up. We're not holding rigid to that type of thing. We are holding rigid to a five-minute. And we were able in the other cities, all three other cities to have anybody who wanted to talk was able to talk. By holding it to five minutes, we were able to have everybody talk. There is also nothing wrong with coming up and saying I agree with the people that have testified

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further...previously on a certain issue and thanking us and going back to your seat. There's nothing wrong with that. With that, we will start with the first testifier. If you would state your name and spell your name and we will get started. [LR155]

DON PREISTER: (Exhibit 1) Good afternoon, Senator Hadley and Senators, staff; friends all. My name is Don Preister, P-r-e-i-s-t-e-r. I had the honor of representing south Omaha and Bellevue in the Unicameral for 16 years. I am currently the Bellevue City Council president. I'm here representing myself. Thank you for providing this opportunity to give tax policy input here in this wonderful asset, Metropolitan Community College, in the magic city of south Omaha. Here, like all across Nebraska, there are many working people unable to attend hearings who seek to be regarded in tax and other policy decisions. They want tax fairness and progressivity. In people's contacts to me over the past 20 years, their most expressed tax concern was with property taxes. Thus, my primary message to you today is to reduce reliance on property taxes. I have listed some things and I gave them to the clerk, so all of the things that I outlined, you'll have a copy of. Before making suggestions on how to do that, I acknowledge that the Legislature has already enacted TERC levy limits and spending caps. I helped pass both, and they are working. However, when the state sends unfunded mandates to political subdivisions, such as Bellevue being required to start a professional fire fighting department, it exerts upward pressure on property tax. Bellevue is transitioning from a volunteer fire department cost of under \$1 million a year to over \$12 million a year. During this transition, the Great Recession hit, causing the state and federal governments to cut their aid. Grants became harder to get, property valuations were reduced, and sales tax revenue fell due to less spending. As essential and mandated service costs went up, revenue was decreased. Consequently, Bellevue ended up this year increasing property tax. That was only done following serious cuts of 5 percent to all departments last year and another 10-plus percent in this current budget. Our library hours are reduced, youth recreation is cut back which could affect youth crime rates, we are delaying road repair, police and fire hiring. Bellevue is managing efficiently, but out of necessity, it is knowingly increasing future costs with this deferred maintenance

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approach. Here is where state policy changes can help: (1) restore and increase state aid to cities and other political subdivisions; (2) increase the state property tax credit and to maximize the effect, only do it for Nebraska residents; (3) push for the national enactment of an on-line and catalog sales tax; (4) review current sales tax exemptions for fairness and uniformity; (5) only add new sales taxes to services that are not essential such as tanning, hair care, massage; (6) do not tax basic needs like funerals, auto repair, and food, but instead, tax nonessentials like pop, sweet drinks, bottled water, plastic bags, and snack items; (7) establish a measurable evaluation process for business tax incentives; (8) rather than enacting income tax reductions for limited select groups like retirees, veterans, or high-income earners, provide broader help for everyone; (9) as the introducer of the current homestead exemption--since then it's been amended--I believe it is okay as it is because of the built-in tiered income, the cost of living allowance, and the automatic home valuation increase. I don't have it on my list but I would also suggest supporting the legislation that Senator Mello will be introducing that provides some rebate back to the city for the sewer separation cost from the additional sales tax that will go on those bills for service fees through the city's funding to metropolitan utilities districts. Those are my recommendations to you. I respect and thank you for taking on this challenging, important task. Taxes have been studied in Nebraska almost as much as water policy. But neither has seen a magic solution appear. I agree with you, Senator Hadley. We must be doing fairly well already given our fourth best national ranking by CNBC as a good state to do business and Pollina's second best business friendly state. I appreciate your considering my views and I'm happy to take any questions. [LR155]

SENATOR HADLEY: Are there any questions for the senator? [LR155]

SENATOR NORDQUIST: Senator Hadley. [LR155]

SENATOR HADLEY: Yes. [LR155]

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SENATOR NORDQUIST: Thank you. Thank you, Mr. Chairman. Thank you for being here, councilman, and the testimony that you provided about the impact of state aid on property taxes echoes what we heard in other cities from other city and county elected officials across the state. I asked the question of every city and county elected official that came before us in Scottsbluff, North Platte, and Norfolk, whether or not, when we eliminated state aid to cities and counties, whether they had to turn to property taxes. And many of them did. We've seen some publications recently that dispute that. But at least in these examples of counties and cities across Nebraska, we are seeing city governments and county governments raise property taxes because the Legislature eliminated that program. In the situation of Bellevue, had that program remained, could a property tax increase have been avoided? [LR155]

DON PREISTER: It would have been a lot easier. For four years, we did not raise property taxes in Bellevue. We absorbed, we got more efficient, we sold property, we have done things that I think were very good things to do but we struggled to do that. And had we not had mandates and costs that we couldn't any longer absorb, it would have been very different. And the amount that we raised, had we not lost that state aid, we wouldn't have had to raise it as much. And we might not have had to raise it at all if those cutbacks hadn't been made. [LR155]

SENATOR NORDQUIST: Do you think if that program was restored, the levy rate would be lower than what you're planning to enact now? [LR155]

DON PREISTER: I don't know if we could go back down at this point because we've got a fire department that we've got to raise funds for. And it's going to take everything we've got to begin to do that, so. But it won't escalate as quickly. And we're getting close to our limit anyway so we're not going to be able to raise it much more. [LR155]

SENATOR NORDQUIST: Thank you. [LR155]

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DON PREISTER: Thank you. [LR155]

SENATOR HADLEY: Thank you, Senator. We appreciate it. While the next one is coming up, we've been joined by Senator Janssen. Charlie, if you want to introduce yourself. [LR155]

SENATOR JANSSEN: Senator Janssen from District 15, Fremont and all of Dodge County. Thanks for being here today. [LR155]

SENATOR HADLEY: And Senator Schilz is just walking in, from District...whatever the Ogallala...what district is that, Senator Schilz? [LR155]

SENATOR SCHILZ: Forty-seven, thank you. [LR155]

SENATOR HADLEY: Forty-seven, all right, 47. And we have...Senator Howard is here with us also. Now anybody want to be a senator, I'm willing to introduce you. Okay, next, please. [LR155]

DOUGLAS KAGAN: Good afternoon, Senators. My name is Doug Kagan and I represent Nebraska Taxpayers for Freedom. Our group believes the root cause of the property tax problem in Nebraska is the valuation system. The state Legislature, by law, allows local governments to set property valuations but the Property Tax Division of the Revenue Department and the state Legislature set the parameters, the guidelines, and criteria. Now our valuation system is causing confiscatory property taxes, increasing at a rate not sustainable. Based upon our own observations, not only are the elderly selling their homes, but young singles, professionals, and families are leaving the state. Both residential and commercial property owners have told us that the valuations are unfair in many instances. For example, property is not accurately inspected inside or out; square footage inaccurately tabulated; or age, style, or construction of a property inaccurately compared to other properties, some dwellings now assessed at

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above-market value. The system is broken, Senators. Valuations will rise until you change the system and the criteria. Nebraska falls behind most other states in reconfiguring its valuation system. Our suggestions: Reset the valuation percentage. From 1953 to 1955, Nebraska property was assessed at 50 percent of actual value. Exempt a percentage of property valuation from property taxation. Consider depreciation in homes for normal wear and tear. Use different valuation increase criteria for different neighborhoods. For example, homes in Benson might not appreciate in value as rapidly as homes in newer neighborhoods. Use the more accurate comparable assessment data, like not comparing one house having many improvements with one having no improvements. In a market approach, assessors should use the sale price of properties only within 12 months or less prior to the assessment date. Utilize an income approach considering landlord income and operating expenses for shopping centers, office buildings, etcetera. Consider landowner expense and net income for farm and ranch land. The burden of proof should lie not on property owners who must present evidence, but on assessors to offer proof of correct valuation. Now a homeowner is judged guilty until proved innocent. To (inaudible) property taxes off the current solution would require county assessors to assess all real property at its base market value at the same time during one or two calendar years. The assessed value of the existing home purchased after January 1 of the target year, would equal the base market value determined by the assessor divided by the total number of square feet of the structure as of January 1 of that assessment year. The county assessors would assign a new base value only when ownership changes or when new construction or alteration occurs that substantially increases the square footage of a house. Only those additional parts of the property newly constructed or that change ownership become subject to reassessment in this manner. The law would allow an increase in base market value only of the per year inflation factor notated on the Consumer Price Index or comparable index. The law also would allow for a decrease in base market value if something catastrophic affects the property, such as a tornado. Surrounding home valuations would not continually rise based on home sale prices in a neighborhood, satisfying a neighbors who otherwise would suffer if a house in close proximity sold for a higher than

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average price. When setting valuations at new ownership, buyers will see predictability and know if they can afford the property tax. Annual differential assessments will disappear, greatly reducing the workload on county assessors. In conclusion, we believe that the solution to too high property taxes lies in property valuation reform. Thank you. [LR155]

SENATOR HADLEY: Are there questions for Mr. Kagan? Seeing none, thank you, sir. While we're getting ready, just so you know, if you...after four minutes, I'll just put up one finger if you're looking at me. And that means...that doesn't mean I don't like you. I'm just telling you what time you have left. [LR155]

DAVID BLACK: (Exhibits 2, 3) (Inaudible)...Senators. I am Papillion Mayor David Black, D-a-v-i-d B-l-a-c-k. I'm offering testimony on behalf of the city of Papillion, as mayor. And I'm also offering testimony on behalf of the United Cities of Sarpy County: Papillion, La Vista, Gretna, and Springfield. First, I'd like to thank you, the members of the Tax Modernization Committee and the entire Nebraska Legislature, for your hard work. As mayors of the fastest growing areas of Nebraska, we understand and appreciate the time it takes to serve and don't underestimate the scope and magnitude of what you face. We do view you as partners and not adversaries as you work through the issues you're working through. In my comments today, I'm going to limit my comments to municipal property taxes. I know your committee has got a broader scope but I hope to give you some insight on how we've approached property taxes at the local level. Property taxes are the only reliable, consistent source of income for local municipalities. While we find the state-imposed lid and levy limits cumbersome and don't believe a one-size-fits-all approach is the best tax policy, we've learned to live within those confines of the limits and would suggest further changes are not needed. While our preference is to have more authority at the local level, we do understand that you're making policy for the entire state and not just for Papillion or Sarpy County. We believe there's a very strong correlation between a constant, reliable property tax levy and economic development. Over the years, members of the United Cities have been

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involved in multiple projects that have stimulated economic development even during the downturn. Last year alone, Papillion's sales tax revenues contributed over \$27 million to the state of Nebraska. I can't recall a single question, a comment, or a concern from a developer regarding our property tax rates in those discussions. At Papillion's current local property tax rate, the owner of a \$200,000 home will pay only \$900 for the year to the city. That \$900 buys a full-time paid fire department, a nationally accredited police department, and many other high quality services, public works, parks, recreation, library, etcetera. Last year, the city of Papillion engaged the National Citizens Survey to reach out to our citizens and understand a lot of how we were providing the services. And we (inaudible) questions very specifically around this topic. Very clearly, at a very high rate, citizens did indicate that they appreciate the services they receive, the high quality of the services they get, and the value that they get for the taxes paid. If you're interested in that study, we can give you the entire document, including the criteria of how it was developed. We also think it's important to note that we are held accountable by our constituents. Papillion's tax rate today is actually 4 percent lower than it was in 2000. During that same decade, we constructed a new police station, we took our fire department from volunteer to fully career, we built a second fire station, and we're in the preliminary stages of building a public works facility, while we were managing our growth. As you can see from the graph--we handed out a document that's got a graph on it--there's a couple of occasions where we did raise our property tax. And those correspond to some major capital projects. Shortly after that, you'll see the rate either went down or it was held at a reasonable rate. The rate today is almost identical to the rate in 2000. In summary, what works in Papillion doesn't work in La Vista, it doesn't work in Gretna, and it doesn't work in Springfield. However, we're all consistent in recognizing the needs of our unique cities and adopting a property tax rate that will best serve those needs. We need the individual economy to be responsive to our constituents. Property tax rate provides the predictability and the stability which is the foundation for a growing region and it's a key to local economic development. In closing, I'd like to point out the uniqueness of our partnership and suggest that our model may be part of the larger solution. Ten years ago, the city of Papillion and the

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Papillion Rural Fire District entered into an interlocal agreement to shift from a volunteer to a single combined career department. Recently you might have read in the paper, the city of La Vista was added to that partnership. And there will now be a single department operated by Papillion that will be providing full-time, paid fire and EMS to all three jurisdictions. I'm providing a second handout--and it's attached to what we gave you--which details the six-year fiscal analysis of that recent merger. The taxpayers in Papillion, La Vista, and the Rural Fire District will realize a combined cost savings of \$11 million to \$13 million over the next six years while increasing the level of public safety for everyone. That was not a legislative mandate. That was a result of local officials leveraging the stable and predictable property tax base of three jurisdictions to develop a local solution built on an environment of trust. I offer it as an example of what's being done at the local level. We understand the complaints about property tax. We believe we've been very creative and responsive to our respective communities. We do not believe the system is fundamentally broken for local municipalities. We represent only a small portion of the levy. We are responsible with our property tax levy. And if your committee does decide changes are needed to the current property tax policies, we urge you to think about the impact it will have on our ability to provide local services our residents expect and assist the state with a growing economy. Again, on behalf of United Cities, Gretna, La Vista, Springfield, and Papillion, I want to thank you for your time. [LR155]

SENATOR HADLEY: Mayor Black, thank you. Are there any questions? Seeing none, thank you very much. [LR155]

DAVID BLACK: Thank you. [LR155]

RICHARD HOLLAND: My name is Richard Holland. I'm president of the Holland Foundation, located here in Omaha. Holland is spelled H-o-l-l-a-n-d. I have written down what I want to say and I do not want it misunderstood. I am thoroughly opposed to any increase, to any abandonment of the income tax. You probably know, the poor already

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pay taxes of 6.4 percent on Social Security and 1.45 percent on their Medicare, and pay 7 percent or 6 percent on sales taxes. To abandon the income tax in order to shift it to a sales tax, in my opinion, would be further taxing the poor where Nebraska has a population of about 22 percent of its population, some 400,000 citizens who are in the poor category of less than \$25,000 a year. I would make the following suggestion, however. I would further increase the progressiveness of the income tax to a higher level so that the steps on this would allow people who don't make as much money can pay a lower tax. But it would force people with great wealth to pay a higher tax and it would create greater equality in the state of Nebraska. Also, we should talk about agricultural land because of all the things that I hear, it's the feeling among landowners in agriculture that property tax is beyond them in terms of fairness. And I think you should retake a look at agricultural farmland taxes and base it upon the question of real value. Now what do I mean by that? We have 18,000 center pivot irrigation systems in Nebraska. Irrigated land, in this dry climate, is worth far more than any dryland operation. And we've seen them flourish...irrigation farmers flourish throughout the times that their systems are operating. And I think those with small farms, 100 or 200 acres, should have the lowest tax. But if there's anything that is really wrong with property taxes in agriculture it is the fact that many farmers and ranchers have grown larger and larger and larger and have huge incomes when small farmers have barely got by. It is almost characteristic of what was talked about before, how you really value a farm and how you really value a farm in terms of how productive it is. Another subject is crucial. We have rapidly growing inequality of taxation in Nebraska. Well over 20 percent of our people earn less than \$25,000 a year. That's about 400,000 people in a population of 1.8 million. You know, really think about that. Another group in the lower middle class, between \$25,000 and \$50,000, are not getting rich. And they are taxed and taxed substantially on everything we know about. We have a bad habit of forgetting that impoverished people working in a pay scale of \$7 or \$9 an hour, we forget that that minimum wage dooms them to a life of poverty. You cannot get out of it. We have watched it and watched it. And a large number of these poor people will never receive Social Security because they will die before Social Security becomes (inaudible) as a

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result of (inaudible). These people appearing here for lower taxes should be asked if they believe that poor people have any future under these conditions. And I can't help commenting on the low tax advocates by saying, if low taxes are the answer to the problem, California, Minnesota, Massachusetts, and Illinois are doomed because they have great universities as a result of taxation and have built the things which have attracted real, honest to God, big jobs and big, big, big opportunities. Thank you very much. [LR155]

SENATOR HADLEY: Thank you. I would make the same comment to anybody. If you want to leave your testimony, we would certainly make copies and enter it into the record, sir. [LR155]

RICHARD HOLLAND: Thank you. [LR155]

SENATOR HADLEY: Thank you, Mr. Holland. Question. I'm sorry, I have one question here. [LR155]

SENATOR SCHUMACHER: Thank you for your testimony, Mr. Holland. The...one thing I found interesting was that you're calling for increased progressivity with the income tax. [LR155]

RICHARD HOLLAND: Yes. [LR155]

SENATOR SCHUMACHER: And we seem to get a lot of communications from people saying that we need to go the other way with income tax because the wealthy and the people with a lot of ability are fleeing the state. How would you view that argument? [LR155]

RICHARD HOLLAND: I'd like to see the numbers on that, of people fleeing the state. You know, it may be a (inaudible) but I can't imagine anybody moving away. You know,

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Warren Buffett loves it here. Dick Holland loves it here. And I can name another 10 or 15 people living in Omaha that love it here who are filthy wealthy. [LR155]

SENATOR SCHUMACHER: Thank you. [LR155]

SENATOR HADLEY: Thank you. [LR155]

MARY ANN BORGESON: (Exhibit 4) Good afternoon. My name is Mary Ann Borgeson and I am the chair of the Douglas County Board of Commissioners. And with me today are commissioners Rodgers, Boyle, Tusa, and Morgan, along with our staff, our CFO, Joe Lorenz, our CAO, Patrick Bloomingdale, and a deputy administrator, Marcos San Martin. Thank you for the opportunity to speak to all of you today. I know you are all aware that county government is a creature of the state. We administer what the state mandates us to do. Among our many responsibilities, we oversee public health and social services, criminal justice and general government support areas of local government. We are statutorily responsible for the poor and the indigent. Today I brought a number of graphs to briefly review with you. The first graph is the property tax pie. If you look at that graph, you can see that county government is 12.229 percent of the total property tax pie. That is what we use to provide the vast amount of services mandated to us by the state of Nebraska. The second graph demonstrates where that money goes. As you can see, the largest amount, 37 percent of our budget, goes to public safety. The next highest is public health and social services, utilizing 22 percent of our budget. The last graph is our mill levy graph. Over the last ten years, we have raised the mill levy but we have also reduced the mill levy. So most importantly, you can see over those last ten years and you can go ten more before that, we have stayed pretty constant in between the 24-26 cents' range. As you have traveled and visited with our good folks of Nebraska, I know you have heard from the county officials about our reliance on property tax dollars to provide our county services. Today, the county board of commissioners would like to offer you a list of items and engage with you in further conversation about the following: first, the Tax Increment Financing program known as

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TIF. We support the TIF program and know it is an important economic development tool for the state of Nebraska. Our request is to review the current criteria and process in which you receive TIF. Douglas County forgoes approximately \$3.8 million annually in property taxes due to TIF agreements. However, the county has no say in which projects receive TIF. Restoring of state aid to counties: In 2011 the state eliminated all state aid to counties. The state could restore funding for unfunded/unreimbursed state mandates for services provided by counties. The state has reduced approximately \$4.2 million annually of Douglas County funding that we provide to direct services. And what those three programs were, were aid to counties, county property tax relief, and jail reimbursement that made up that \$4.2 million for Douglas County. The state office costs: The state could reimburse the counties or bear the costs of offices and equipment leased by the county for state use. The county leases 13 locations or spaces used by DHHS, social services, juvenile and adult probation, and the Department of Motor Vehicles at an annual cost to the county taxpayers of \$541,727. Cost of the guardian ad litem program: The state could reimburse the counties or bear the costs of the GAL program. Douglas County taxpayers are burdened with the \$550,000 to \$620,000 annual cost of this program. If we add in the court-appointed attorney costs in juvenile, those figures increase to \$800,000 to \$1 million. Costs of the district and juvenile courts: State could reimburse the counties or bear the costs of operating district and juvenile courts; annual cost of \$7.7 million to Douglas County taxpayers. The cost of issuing license plates: The state Department of Motor Vehicles could take over the complete cost and function of issuing state license plates, do it from Lincoln. But please note, we are not advocating changing any county license plate numbers. Costs of behavioral health services for the regional facilities: State could fully take over the costs of operating the Division of Behavioral Health Services Regional Centers located in Hastings, Norfolk, and Lincoln. Currently, Douglas County makes annual payments totaling \$270,000 to support these three state facilities. Costs of criminal fees charged to county attorney's office from the district court: Note, these are only criminal filing fees. State could reimburse or eliminate the cost of filing fees incurred by the county attorney's office to prosecute crimes at a cost of approximately \$234,000 annually. And

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then there was a mandate last year to the county assessor's offices, 77-1311, which mandated the January to March pre-Board of Equalization meeting requirement for county assessors. And that incurred a cost of \$500,000 to Douglas County taxpayers. These are just ideas. The county board of commissioners offers you this list of ideas to look at further and looking forward to further conversation on these recommendations with all of you. We thank you for your time and attention given to this important issue for the taxpayers of Douglas County and for the state of Nebraska. [LR155]

SENATOR HADLEY: Questions for Commissioner Borgeson? Yes. [LR155]

SENATOR NORDQUIST: Thank you, Mr. Chairman. Thank you, Madam Chair. Thank you for your service on the county board. If we were to restore state aid to counties at \$4.2 million, would the levy rate in Douglas County be lower than the budget that you just adopted? [LR155]

MARY ANN BORGESON: We actually discussed this as a board and we will do our darndest to do that. But with the elimination, I can't sit here and promise you that but we would definitely have that as a top priority to reduce. [LR155]

SENATOR NORDQUIST: All right. Thank you. [LR155]

SENATOR HADLEY: Thank you. Senator Hansen. [LR155]

SENATOR HANSEN: Thank you. Thanks for being here today. You did not mention anything about the inheritance tax, did you? [LR155]

MARY ANN BORGESON: Oh, no. [LR155]

SENATOR HANSEN: Okay. That's one of the taxes. I mean, this is a modernization thing so we, whether Senator Hadley wants me to or not, I'll bring that subject up.

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[LR155]

SENATOR HADLEY: I have no power over him. [LR155]

SENATOR HANSEN: What is the amount of the inheritance tax? [LR155]

MARY ANN BORGESON: Nine million dollars. [LR155]

SENATOR HANSEN: Nine million in Douglas County? [LR155]

MARY ANN BORGESON: Uh-huh. And I didn't bring that up, only because I think we've heard over the last few years that our opposition in reducing that or taking that away, and as today that stands the same. [LR155]

SENATOR HANSEN: Okay. Thank you. [LR155]

SENATOR HADLEY: Welcome, Mayor. [LR155]

JEAN STOTHERT: Good afternoon, Chairman Hadley and members of the Tax Modernization Committee. My name is Jean Stothert, S-t-o-t-h-e-r-t, and I'm the mayor of Omaha. Welcome to south Omaha and Metropolitan Community College. It's a pleasure to be with you. And thank you for holding one of your five public hearings in our city. And thank you, Senator Mello, for holding this in your district. I first want to congratulate you for the effort that you are making to review our state tax code and to recommend changes that are in the best long-term interest of our great state. Your work is a significant challenge but one all public bodies must periodically undertake to ensure a tax structure that is fair, flexible, and leads to continued economic growth. Prior to being elected mayor of Omaha, I was privileged to serve as an Omaha City Council member for 4 years and before that, an 11-year board member of Nebraska's third largest school district, the Millard Public Schools. Like many of you with even more

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experience in public service than I have, I have learned that finding the right balance between tax policies and funding critical services can be hard to find. When Governor Heineman announced his tax proposals in January, it was immediately clear the potential impact on the city of Omaha and our citizens was significant. And this committee's recommendations will also be of great interest to us for several reasons. First, nearly two-thirds of our city's general fund budget is funded with sales tax and property taxes. The state also relies on the sales tax, of course. And the property tax, in my view, is too big of a burden on our families and our businesses and their budgets. Secondly, our ability to retain and attract business and industry to the metropolitan area is greatly affected by our state's tax structure and competitive standing with our neighborhood states. The city's budget is also impacted by the requirements of our state's business incentive plan. For example, for our 2014 city budget, we have assumed an offset to sales tax revenue of \$12 million due to state LB775 refunds. Finally, your work will impact us greatly as elected leaders in Omaha. I will need to respond and, likewise, modify our tax structure to ensure fair and equitable local taxes. Allow me to illustrate my last point. Any broadening of the state sales tax will affect Omaha. By state law, items subject to the 5.5 percent state sales tax are also subject to the local option sales tax we have in Omaha which is 1.5 percent. So we're in this together. As an example, under the Governor's less extensive reform proposal last January, sales tax revenue to Omaha would have been increased roughly the same 26 percent the state would have experienced. That would generate approximately \$35 million in additional sales tax revenue for the city of Omaha. Without a reduction in other revenue sources in Omaha, you can see the kind of windfall this would have created. Last January, prior to the election, I made a commitment that should the state tax policy change lead to an automatic increase in our city's revenues or found money, I would offset new revenues dollar for dollar. That would be an opportunity for us to reduce property taxes or sales tax or reduce or repeal our occupation taxes. Local government, like the city of Omaha, should work hard to provide tax reductions to offset unexpected higher tax revenues due to state policy changes. Not making local offsets would lead to higher net taxes which is not our goal. In addition, if local governments just spend their

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financial windfall, ongoing government efficiency efforts at all levels will be too easy to ignore. This situation could jeopardize your effort to provide tax fairness and relief to our citizens. I am committed to assist you in any way that I can to assure that changes to our tax structure are fair, broad-based, easily understood and administered, and which enhance commerce and employment in our state. Thank you again, for tackling these complex issues and for doing all you can to make Nebraska more affordable and more competitive. Thank you. [LR155]

SENATOR HADLEY: Are there questions for Mayor Stothert? Thank you. [LR155]

SENATOR HARR: I have one. [LR155]

SENATOR HADLEY: Pardon me? [LR155]

SENATOR HARR: I have one. [LR155]

SENATOR HADLEY: Senator Harr. [LR155]

SENATOR HARR: Thank you. I just have one question and it's based on a comment made earlier about the sales tax on the sewer project. [LR155]

JEAN STOTHERT: Uh-huh. [LR155]

SENATOR HARR: Apparently, there's going to be legislation introduced to return the sales tax to the city of Omaha. How does the city of Omaha feel about that? [LR155]

JEAN STOTHERT: I would support that, Senator Mello's bill. You know, I...our project is such...the scope of it is so big. For example, in the 2013 budget, we're spending about \$168 million on that sewer project. I just have on my desk now, the next rate ordinance that will be increases for the next four years from year '15 through '18. When you're

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spending that much money every year, it's very significant. We just had a study done by the University of Cincinnati, and it showed that in the next rate cycle, the structure of the ordinance that I'm going to be signing soon, it's affordable in Omaha. But after that, the study showed it's not sustainable any longer. With that amount of money that we are spending every year, you know, we're looking at any way we can to reduce the burdens. I'm particularly concerned with those citizens who are lower income who can't afford it. What Senator Mello is proposing, you know, it won't make an enormous dent yearly on that \$168 million, \$175 million a year, but it will make a difference. And you know, one of the areas, again, I'm worried about are those lower-income families. We need to have a fund that will help those families out. And even if the amount of revenue that this...that Senator Mello was proposing to generate, whether it be \$4 million, \$5 million, \$6 million a year, it could certainly help out some of those people who are going to find that new hardships. So I would absolutely support that. [LR155]

SENATOR HARR: Thank you. [LR155]

JEAN STOTHERT: You bet. [LR155]

SENATOR HADLEY: Thank you, Mayor. Any other questions? Seeing none, thank you, Mayor. [LR155]

JEAN STOTHERT: Thank you. [LR155]

SENATOR HADLEY: Mr. Vokal. [LR155]

JIM VOKAL: Good afternoon, Senators. Thank you for the opportunity to speak today on property taxes and income taxes. My name is Jim Vokal, I'm the executive director of the Platte Institute for Economic Research. 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

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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 this 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. Number one, 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 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. Second, high corporate tax rates have led to increasing demand for generous tax incentives to counter high corporate tax rates, a vicious cycle. Third, property taxes are a concern but there is strong support for retaining local control over local setting priorities. The property tax on business equipment is of particular concern. Finally, Nebraska needs every advantage it can to overcome the cultural bias against the Plains states; that is, the perception that they're 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. They further states 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 and property tax relief must be on the table in the upcoming legislative session if Nebraska is to remain competitive with neighboring states. Rather than providing another incentive or two for this or that favored group, the approach that the Platte Institute and the Tax Foundation outlined in our most recent report that was delivered to you a couple of weeks ago would result in an equitable and simplified tax system for everyone that would promote long-term economic growth and boost job creation developed specifically for Nebraska. The specific tax reduction plan on the income side we authored, would reduce the state's highest top individual tax from

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6.84 percent to 5.5 percent, lower the uncompetitive corporate tax rate from 7.81 percent to 5.5 percent, offer more meaningful relief from excessive property tax increases and provide options for difficult sales tax reform. The plan, which is roughly revenue neutral, is funded through a small scale expansion of sales tax on a group of exempted services. Our model places special attention on both low- and middle-income earners of the state by doubling the earned income tax credit and substantially increasing the personal exemption. Finally, the funding mechanism avoids both the manufacturing and agricultural industries, (inaudible) any concern of business-to-business taxation. Just this last Friday, the Tax Foundation and Platte Institute plan was praised by Forbes magazine and their contributor, David Brunori. Mr. Brunori states that the Tax Foundation and Platte Institute plan would make Nebraska's taxes fairer, simpler, and more conducive to retaining firms and people. He further states that the Tax Foundation and Platte Institute plan must have a goal of spurring economic development through tax reform. This brings up an important point that I want to stress with you today. We cannot ignore the empirical economic evidence that lower income tax states lead to increased growth. Between 2002 and 2012, 62 percent of the 3 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 the other states in their region. As stated previously, property tax relief is also a concern of the Platte Institute. And because of that concern, in our plan we offer up three property tax cap suggestions that could be applied to Nebraska. It can be designed to restrain excessive property tax growth and create the needed pressure for local spending control. Adjusting property tax collections for median home value places Nebraska property taxes at the sixth highest in the nation, despite the state's previous effort to lower property taxes with increased state aid. The strategy of giving additional state aid to reduce property taxes has a poor track record. States that provide a large amount of state aid to local governments have similar property tax burdens to states providing little aid. States with

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similarly high property tax burdens, such as Nebraska, Vermont, Michigan, and Wisconsin, all offer a very large amount of state aid. But this has done little to reduce local property tax bills. New Jersey has infamously adopted income tax increases and sales tax increases to reduce local property taxes, and today has the highest property taxes and among the highest income and sales taxes. In conclusion, the reason for this strategy's lack of success are many. Our research suggests that state financed property tax relief increases citizens' willingness to accept a higher burden of taxation. At least one study has found evidence that when localities received aid predicated upon credits for property taxes, it simply boosts taxes higher, knowing the state will foot the bill. For these reasons, additional state subsidies to high-taxing local authorities are a poor solution for high property taxes. Thank you. [LR155]

SENATOR HADLEY: Are there questions? Senator Nordquist. [LR155]

SENATOR NORDQUIST: Yeah. Thank you. Thank you, Jim. The New Jersey example, do you know, do all those states have a levy lid and a spending lid like we do, for instance, with our K-12 system in Nebraska? [LR155]

JIM VOKAL: They do have various forms of it. [LR155]

SENATOR NORDQUIST: Okay. [LR155]

JIM VOKAL: I can't specifically say on New Jersey. [LR155]

SENATOR NORDQUIST: Okay. And then have you guys scored your plan? So I appreciate that you include the earned income tax credit portion for low-income workers. But for the middle-income family that's making around a median household income in Nebraska, \$50,000, they don't hit that top bracket yet so they're not seeing benefit there. But yet...and they're, obviously, too high income for that earned income tax credit portion. So they are the ones who are getting hit with that increased sales tax.

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Have you looked at how your plan would impact the family that falls right there? [LR155]

JIM VOKAL: We haven't done a specific example with a specific income bracket, as you're speaking about. Our plan reduces our bracket system down from four to two. And that, with the combination of the increased personal exemption to \$7,500 per person, in our opinion, makes it fair and equitable for those class levels. [LR155]

SENATOR NORDQUIST: Okay. All right. Thank you. [LR155]

JIM VOKAL: Thanks, Senator. [LR155]

SENATOR HADLEY: Any other questions? Seeing none, thank you, Mr. Vokal. [LR155]

JIM VOKAL: Thank you. [LR155]

SENATOR HADLEY: Mr. Brown. [LR155]

DAVID BROWN: (Exhibits 5, 6) Chairman Hadley, Chairman Mello, and members of the committee, thank you for coming to Omaha for this briefing. I am David G. Brown, B-r-o-w-n. I'm the president and CEO of the Greater Omaha Chamber of Commerce. I'm testifying on behalf of both the Greater Omaha Chamber and the Lincoln Area Chamber of Commerce today. We appreciate the opportunity to offer our thoughts on the task before you and we look forward to continuing to work with you in the upcoming legislative session to make Nebraska's tax structure more competitive, fair, and growth oriented, ensuring small business people, retirees, farmers, and ranchers, and every other Nebraskan that they have the opportunity to realize a more prosperous future. As we all know, last year's legislation to reform our tax code was not the direction that many Nebraskans, including our two chambers, thought we should go. But the business community has been discussing for years how we can best put our state in the position to achieve more growth in jobs, wealth, and people. So we appreciate the Governor

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putting these proposals forward and at least beginning an important dialogue. The Greater Omaha and Lincoln Chambers did not want to be reactive in this discussion, however; so we've commissioned two studies to be concluded in November that will shed light on how best to address the principles under which we look at every challenge at the Chamber. Those principles are: retention and expansion of jobs; more robust population growth; responsible state and local government spending; and increased wealth for all citizens. When we look through our lens, that's what success looks like. We were hoping to have those studies ready for these hearings. But as you know, these are intricate issues and we didn't want them to be done fast, we wanted them to be done right. As we have gone through this process, we have learned a lot about where we stand as a state relative to others and how we've gotten to where we are. Now we need to take steps to get more competitive as the world economy evolves and the states' and the nation's tax structures evolve with it. The studies that we've commissioned are focusing on what types of taxes encourage jobs and population growth; what we can do to make our tax code more conducive to growth; what has happened to state spending growth over several years; and the effectiveness of the Nebraska Advantage Act as a tool to offset a noncompetitive tax system for new and expanding businesses. To be sure, Nebraska is ranked very highly in many rankings published by site selectors and national economic development organizations. And that's a very nice thing for their scrapbook and promotional material. But quite often, those rankings only look at what our tax climate is like after incentives have been applied for those companies looking to move to Nebraska or expand operations here. Let me repeat that. Those rankings only look at what our tax climate is like after incentives have been applied for those companies expanding here or looking to move here. If the lessons of the past are any indication of the future, we can expect that for the first 15 years of the Nebraska Advantage Act, about 1,000 companies will utilize those incentives to make important competitive decisions resulting in significant investments and jobs in the state. And these incentives work, and work well. At the same time, there are businesses that are here already, employing our citizens, paying taxes, and contributing to local charities that do not have the option to access incentives

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and must, instead, attempt to be competitive, paying taxes without the benefit of credits available to new companies or expanding companies. We believe it's time to make our tax structure more competitive for the other 49,000 businesses in Nebraska. That truly is an issue of fairness. And if we do that successfully, we'll make our state more prosperous for every Nebraskan, whether they're working at a large, a medium, or a small business. The policies adopted by the Governor and Legislature over the last several years, such as the Nebraska Advantage Act and tax reductions in 2007, has yielded the economy we enjoy today. It's an economy that weathered the Great Recession better than almost any state, one that continues to grow steadily with low unemployment, and one that the Governor brags about to the rest of the country. So we won't be surprised if the studies we have commissioned encourage our policymakers to continue to make adjustments to our income tax system and our overall tax burden to further strengthen our competitive position to grow businesses across the state. And we hope they recommend something bold. We believe that a tax system that is pro growth is one that will meet the parameters of the guidelines you are working under: fairness, competitiveness, simplicity and compliance, stability, adequacy, and consideration of the complementary nature of various taxes. We believe such a system should include lower income tax rates because we believe that lower rates will make Nebraska employers more competitive in recruiting and keeping talent in the state. We believe that both small and large businesses are paying much higher income taxes than is required in surrounding states. And that's backed up by study after study after study. And we believe this is a golden opportunity to improve their ability to compete. We also believe that continuing to exempt manufacturing input from state sales tax is critical to ongoing success of retaining and attracting manufacturers to Nebraska. It's important to note that we acknowledge that if the Legislature makes significant changes to our tax system, changes will also need to be made to the Nebraska Advantage Act to reflect the more modern tax system. I also want to put some perspective around the property tax versus income tax hyperbole. We need to decouple these two issues. It absolutely doesn't have to be income taxes versus property taxes. We support addressing both issues and including other taxes in the discussion as well. So in closing, we want to say

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thank you for your leadership on taxation and the Nebraska Advantage Act. It has led Nebraska well through the Great Recession and put us in the unique position to take advantage of our current economic strength. Our Chamber, along with the Lincoln Chamber, will work with the State Chamber and other organizations over the next few months to craft a plan that will help grow all of the state's industries so that our citizens can enhance their lives through more productive employment. We are committed to working with the Governor, the Revenue Committee, and all senators to take Nebraska to the next level in this global economy. Thank you. [LR155]

SENATOR HADLEY: Questions for Mr. Brown? [LR155]

SENATOR NORDQUIST: Galen, a quick one. [LR155]

SENATOR HADLEY: Senator Nordquist. [LR155]

SENATOR NORDQUIST: Thank you. Thank you, David. Will the plan that you guys are proposing, will it come back as revenue neutral? Is that an intent to have some revenue offset that there are proposed reductions? [LR155]

DAVID BROWN: Yes, absolutely. Our hope was that we'd actually take what the Platte Institute has come up with and our two companion pieces that we'll kind of look at different pieces of it and be able to come up with a set of options that would be revenue neutral. Yes, sir. [LR155]

SENATOR NORDQUIST: Okay. Thank you. [LR155]

SENATOR HADLEY: Another question? [LR155]

SENATOR NORDQUIST: We've got one more. Senator Harms. [LR155]

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SENATOR HADLEY: Senator Harms. [LR155]

SENATOR HARMS: Thank you very much. Thank you for testifying. I appreciate your comments. I'd like to have you explain in a little more detail in regard to wanting to make changes in the Nebraska Advantage Act to reflect a more modern system. What are you referring to and what changes would you recommend? [LR155]

DAVID BROWN: Well, that is entirely dependent upon what changes in the tax structure take place. Our Nebraska Advantage Act, as you all know, is a tax credit system, and you allow credits against liabilities earned by capital investments and jobs. So depending, again, upon what taxes are changed, which ones might be reduced, which ones might be enhanced, would suggest that the Nebraska Advantage Act could be changed as well. So the Nebraska Advantage Act was designed, as you all are aware I think, to mask higher taxes. So if we have high taxes in income tax, high taxes in corporate income tax, high taxes in sales tax, then the incentives are allowed to provide, essentially, a lowering of those tax rates. If you lower the tax rates already through legislation, then that necessarily means that we should be able to look at using incentives for what they were originally designed to do. And that is to encourage certain types of behavior. So if we have a very competitive tax structure in the state, one could look at incentives as a way to encourage higher paying jobs to be created in the state or incenting different types of businesses to come to the state that you really want to have happen. Right now, our tax structure is such that the incentives really are designed just to mask high taxes. Incentives really can be used for that original intent and I think will make us even more competitive in the long run. [LR155]

SENATOR HARMS: Thank you. [LR155]

SENATOR HADLEY: Seeing no other questions, thank you, Mr. Brown. [LR155]

JOHN DILSAVER: Good afternoon. John Dilsaver, J-o-h-n D-i-l-s-a-v-e-r, I represent

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Riteway Oil, an Omaha company, and I am also a board member of the Nebraska Petroleum Marketers and Convenience Association. Revenue neutral is sort of the charge today. If property taxes were reduced, then another tax must go up. What tax? Motor fuels, tobacco, pop, candy, beer? Our concern is with the potential of occupation taxes being imposed. As an example, Riteway has seven properties in Douglas County. We pay approximately \$85,000 in real estate taxes on those seven properties. In occupation taxes in the city of Omaha, we're going to pay about \$84,000 on fountain, hot dogs, and tobacco. Those taxes are regressive. We feel that property taxes are good--could be lower--but occupation taxes are regressive and we would resist occupation taxes. Any questions? [LR155]

SENATOR HADLEY: Any questions? Seeing none, thank you. We appreciate your coming. [LR155]

RENEE FRY: (Exhibits 7, 8, 9) Good afternoon, Chairman Hadley, members of the Tax Modernization Committee. My name is Renee Fry, R-e-n-e-e F-r-y, and I'm the executive director of OpenSky Policy Institute. I want to begin by thanking you for doing this very important work. We all know that property taxes are a concern for Nebraska families. It's no surprise that as property taxes have been increasing faster than inflation since the late '90s. And property taxes aren't just a rural issue. They are a statewide issue and they have been for decades. So what can we do about it? First, we can broaden the sales tax base by taxing goods and services. We spend a greater share on services today than we did when the sales tax passed in the 1960s. Failure to collect revenue from many of these consumer services has contributed to the inability of our sales tax to keep pace with the state's economy and has led to inconsistencies in how we tax goods and services in our tax code. And when our state revenues fall, our practice has been to reduce state aid to local governments, increasing their reliance on property taxes. We've included in our materials a list of services that we estimate could raise approximately \$150 million per year. We could then use this revenue to offset for reduced property taxes. In the past several years, we have cut state aid to local

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government, such as cities and counties and school districts. In fact, we rank 43rd in percentage of local government funding that comes from state aid and we rank 49th in the percentage of K-12 education funded by state aid. It would take us over \$500 million in additional state aid to get us to the national average. States like Nebraska that are heavily reliant on property taxes to fund K-12 education have greater challenges ensuring that all students receive a good education across the state. For example, even with much lower property tax rates, districts with the highest property values are able to raise nearly 3.4 times as many dollars per student compared to areas with the lowest property values in the state. Therefore, we recommend increasing state aid to K-12 education to ensure a more equitable distribution of resources while also reducing the property taxes. An infusion of state aid combined with property tax limits, has worked to significantly reduce property taxes before. I have passed out a few charts that illustrate this. More state aid keeps property taxes down. Cuts to state aid have resulted in increased local taxes. Regardless of how state aid works in other states, we know without a doubt that this has been an effective property tax reduction mechanism in Nebraska. We also suggest that the state reinstate state aid for their local governments and examine countywide local sales taxes and local income and payroll taxes as potential revenue raising options. In part, to offset the regressive effect of broadening the sales tax base, we recommend implementing a circuit breaker to provide a tax credit based on the percentage of income people pay on property taxes. About 18 states use circuit breakers to help offset high property taxes for those with relatively low incomes. The cost of circuit breakers can vary based on how they are designed. They can include caps, (inaudible) caps, and the income levels and amount of rebate tend to be unique to each state, its particular needs, and the cost of the program. Typically, the property tax is still collected at the local level with the refundable credit provided through the income tax. In my opinion, this would not violate the uniformity clauses as it would not increase the property tax burden on the remaining taxpayers. We also recommend exempting agricultural repair and replacement parts, and making sure that the state's individual income tax rates and brackets automatically take account of inflation, a process known as indexing. We do not, however, recommend cutting income taxes for the following

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reasons: (1) in the past decade, Nebraska's economy grew faster than all neighboring states with lower income taxes and all states without an income tax; (2) Nebraska's unemployment rate was lower than nearly all of the neighboring states, as well; (3) the only neighboring state with a faster growing economy at that time was Iowa, which has a higher top income tax rate than Nebraska; (4) relative to similarly situated states, our income tax is already low; and finally, because of the vast majority of academic research showed that income tax cuts do not create jobs and have no major impact on state economies. The income tax is a progressive tax which means people pay higher rates as their incomes increase. So it's higher earners who benefit the most when income taxes are cut. And when a cut to an income tax is combined with the broadening of a sales tax, then that effect is extremely regressive and results in the wealthiest Nebraskans getting a significant tax cut and everyone else getting a tax increase. In order to help illustrate how the various options would affect real Nebraska taxpayers, we've partnered with an accountant who provided us with anonymous but real Nebraska taxpayer information and how much they actually pay in taxes every year. We've applied the various options to these real taxpayers so you can see the impact to actual Nebraskans. And that is included in your packet as well. We've also completed a comprehensive memo reviewing the options put forth by the committee, which is available on our Web site and I would be happy to get that to any of you as well. Finally, we strongly recommend not using the Cash Reserve to lower taxes. While the Cash Reserve is currently at the minimum recommended level, this would quickly deplete the Cash Reserve, leaving us without a strong safety net. It's a risky move, especially as corn prices are dropping. In fact, most states are looking to try to strengthen their cash reserves, not weaken them. Thanks so much for your time and for your hard work. And I'd be happy to answer any questions. [LR155]

SENATOR HADLEY: Are there questions for Ms. Fry? Senator Sullivan. [LR155]

SENATOR SULLIVAN: Thank you, Senator. And thank you for your testimony. You mentioned the circuit breaker in other states and the research you've done. Has that

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been applied both to residential and, as well, as ag land? [LR155]

RENEE FRY: Yeah. The interesting piece about the circuit breaker is that it really can really be designed for a particular state, so no one circuit breaker looks the same. So you absolutely can develop a circuit breaker that could be designed, whether it's for renters, whether it's for agriculture. So, yeah, it can be designed to do that. [LR155]

SENATOR HADLEY: Senator Schilz. [LR155]

SENATOR SCHILZ: Thank you, Senator Hadley. Ms. Fry, thank you very much for coming in this afternoon. You talked some about...and I want to focus on renewing or setting back up some state aid for counties and how that comes in. And I know when we had the discussion in the Legislature and voted to take that away. And my question to you is--and this is purely, you know, academic--but the question is, is it better...do you believe and does your organization believe that it's better to provide that property tax relief or whatever it is through, you know, giving it back through the state or would it be better just not to collect the tax in the first place and allow the governments to do that? And I think when we started that and we did that discussion to where that was taken away, my understanding--and this is just my recollection and I think I'm trying to remind everybody in this room--was that we would look to cut those taxes moving forward so that we didn't have to go back to, you know, reinventing the wheel and taking up time and effort to figure out who should best get that money back rather than just leave it in the pockets of the people that have it in the first place. Could you respond to that and give me your opinion? [LR155]

RENEE FRY: Yeah. I'm not sure if I completely understood your question, so. [LR155]

SENATOR SCHILZ: Let me try to clarify that. What I'm saying is, is it better not to collect the tax in the first place or is it better to collect the tax and then use some sort of formula to give it back to whoever a Legislature or someone else decides is the best to

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give it back to? [LR155]

RENEE FRY: To not collect the sales or income tax? [LR155]

SENATOR SCHILZ: No. Property tax...the counties. I mean, if we're talking state aid to counties, we're talking property tax relief, essentially. [LR155]

RENEE FRY: Right. Right. So, okay. So the challenge that we have in Nebraska--and again, I'm not completely understanding or not sure--because we have services we have to provide, right? [LR155]

SENATOR SCHILZ: Uh-huh. [LR155]

RENEE FRY: And the county is, in particular, is really an extension of the state and so their functions are required by the state as an extension thereof. And so if you don't collect the property tax, right...which I think what we need to do is increase state aid to counties, cities, and schools so that they don't have to collect as much property tax, right? But if we...if they don't collect the property tax and we don't provide increased state aid or if we don't...or if the state doesn't take over some of those obligations from the counties, which I think is completely acceptable... [LR155]

SENATOR SCHILZ: But that's different than state aid. [LR155]

RENEE FRY: That is. Absolutely. [LR155]

SENATOR SCHILZ: And that's what I'm getting to here. [LR155]

RENEE FRY: Right. Okay. So in terms of that, I think that works really well for counties, and I...because, again, counties are an extension of state government. So I think if the state were to assume some of the costs of those obligations for counties, it works. I'm

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not sure that that works for K-12 education, though. So that's sort of the issue. So I think it's a perfectly acceptable option on the county level and it might be acceptable on the city level. I'm not sure that it works on the K-12 level and that's where we have the biggest disconnect. [LR155]

SENATOR HADLEY: And I think we need to move on. [LR155]

SENATOR SCHILZ: No, and I don't disagree with you. [LR155]

RENEE FRY: Yeah. [LR155]

SENATOR SCHILZ: I think you're exactly right. [LR155]

RENEE FRY: So I think on the county level, yeah, that's a great option. [LR155]

SENATOR SCHILZ: Thank you. [LR155]

SENATOR HADLEY: I have, I guess, Ms. Fry, one quick question. The states that have broadened their sales tax, we've heard consistently from economists that the best thing to do is broaden your sales tax and lower the rate. Is that what's happened in other states? Because what we're talking about here is broadening the sales tax and leaving the rate the same. Is that correct? [LR155]

RENEE FRY: Yeah. So we, again, see that the bigger issue has been on the property tax side with property taxes going up. I think, yeah, another option would be, absolutely, to reduce the sales tax rate which would address the regressivity of the sales tax. So I think that's a great option as well, but then it doesn't get to the property tax side which is sort of the issue now in that it doesn't address the equity issues that you have with low state aid to K-12. So, yeah. [LR155]

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SENATOR HADLEY: Okay. Thank you, Ms. Fry. Other people? No problem. And anybody that wants to talk about sales taxes, please come up also. [LR155]

STEVE NELSON: (Exhibit 10) Good afternoon, Senator Hadley. My name is Steve Nelson, S-t-e-v-e N-e-l-s-o-n, I'm a farmer from Axtell, Nebraska. I farm with my son; we raise irrigated corn, soybeans,... [LR155]

SENATOR HADLEY: Would you pull the microphone a little closer? [LR155]

STEVE NELSON: ...and hybrid seed corn. That's in Phelps County, Kearney County, and Franklin County. And I'm here on behalf of the Nebraska Farm Bureau Federation. I serve as the president of the Nebraska Farm Bureau Federation and am providing testimony on behalf of Nebraska Farm Bureau today. I certainly thank you for all the hard work that you're doing. And I'm very thankful for the opportunity to be here. From Farm Bureau's perspective, property tax is the problem. And I know that in the hearings that you had around the state, you've heard many stories from farmers and ranchers, small business owners, homeowners, and talking about the problem. And I'm not here to belabor that point today. You've heard a lot of that. And rather, I'm here today to talk about or offer a road map to property tax relief. Someone once said that it takes a mile to turn around a battleship. In some respects, trying to tackle property tax relief in Nebraska is the same thing. It's like turning around a battleship. The road map we offer is a three-year plan that we believe provides a path to real, significant property tax relief. With the plan, we are charting a course to turn around the battleship of rising property taxes. The ideas presented here provide a possible road map to property tax relief with many deliberations. Obviously, many details would need to be discussed and worked out. And it is our hope the ideas can point the state in the right direction. As the committee knows, fairness and equity in tax burdens are desirable attributes for any tax system. In our opinion, the current system is not equitable in that property taxes account for around 45 percent of the total property, sales, and income tax collected. And unfortunately, the trend is going in the wrong way with the percent attributable to

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property taxes getting larger. We believe equity would be served by reducing the property tax burden with the goal of seeking a better balance in the three tax sources. With that in mind, Nebraska Farm Bureau proposes a three-year goal of reducing property taxes collected as a percentage of the total property, sales, and income taxes collected by 5 percentage points from 45 percent to 40 percent or by \$405 million annually by the third year. Such a reduction would steer the state towards a more equitable tax system, although it would still be a long ways from the generally accepted tax policy of one-third, one-third, and one-third. Our road map has three parts, over three years: one, immediate property tax relief; two, state and local spending restraint in year two; and in year three, broadening the tax base. Number one, property tax: Immediate property tax relief. The starting point would be to reduce the overall property taxes in the first year by roughly \$160 million. Property taxes collected in 2012 amounted to roughly \$3.2 billion, so the \$160 million would amount to roughly 5 percent of the total property tax collected in 2012. We believe the most efficient means to achieve this kind of immediate property tax relief in the first year would be to reduce agricultural land values to 65 percent. This would roughly account or amount to \$77 million in reductions; and the second area would be to increase the money directed to the Property Tax Credit Program by roughly \$83 million. Reducing ag land values is estimated to result in \$30 million in additional state aid to schools. Thus, the total state obligation in year one would be about \$113 million. We believe the Cash Reserve could be used to provide this relief and return dollars to the taxpayers. By directing more dollars to the Property Tax Credit Program, all property owners would see relief. Also, by reducing ag land values, it would help achieve more equity in funding local government. Right now, ag land owners comprise 3 percent of the population and pay 24 percent of the property taxes. After this first step, we estimate that roughly \$245 million is left to achieve the 40 percent goal based on 2012 figures. Part two or year two: The second part of our plan focuses on state and local spending. Nebraska Farm Bureau applauds senators for the fiscal responsibility that you have shown and encourages you to continue to work hard to restrain spending. State revenues, over time, have grown roughly an average of 5 percent a year. To the extent that state

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spending can be restrained with growth at less than 5 percent, it would provide additional dollars for property tax relief. For example, state spending, if we're limited to 4 percent, that percentage difference between spending growth and revenue growth would be roughly \$37 million in additional dollars for reductions for a one-year budget. At the same time, our members believe work could be done to limit the growth of local government spending. Spending lids, levy lids, and other means should be examined and explored to further control the growth of property taxes at the local level. We continue to hear concerns from members related to local school spending. This is particularly true when many rural districts are not receiving state aid and the school is entirely funded by property taxes. Curbing the growth in local spending and property taxes will help close that gap. We believe spending restraints at the state and local level could free up dollars which could be used to provide additional property tax relief in years two and three. Additional property tax relief on top of what was outlined in part one could come from removing community colleges from property tax rolls. Yes, sir. [LR155]

SENATOR HADLEY: One minute. [LR155]

STEVE NELSON: One minute? Close. Reducing personal property taxes on ag and commercial industrial equipment, expanding the homestead exemption to target relief to homeowners. And then part three: Nebraska Farm Bureau supports broadening the sales tax base to include more goods and services consumed by the final consumer. Any additional revenues generated by a base expansion could be used to provide dollar-for-dollar property tax relief in year three to make up the balance needed to achieve the goal. Also, we believe that the committee could consider providing access to local income tax to broaden local funding capacity. This would also provide relief to property taxes. I think I'll just stop there. [LR155]

SENATOR HADLEY: Okay. Are there questions? [LR155]

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STEVE NELSON: I certainly, again, appreciate all the hard work and the hard job that you have in dealing with the issue. And I would attempt to answer any questions.

[LR155]

SENATOR HADLEY: Any questions for Mr. Nelson? Seeing none, thank you very much for coming. [LR155]

STEVE NELSON: Thank you. [LR155]

SENATOR HADLEY: While the next person comes up, I have two housekeeping--good--chores. Senator Kruse is here, I believe. There he is over there. Senator Kruse, thank you for coming. And I did forget to thank Metro Community College for letting us use this outstanding facility. We very much appreciate it. We were up in Northeast in Norfolk and they had a beautiful facility and we appreciate, very much, the use of it. Go ahead, sir. [LR155]

GARY PERKINS: (Exhibits 11, 12) Good afternoon, Chairman Hadley and members of the Tax Modernization Committee. My name is Gary Perkins, G-a-r-y P-e-r-k-i-n-s, and I'm president and CEO of Children's Hospital and Medical Center here in Omaha. This afternoon, I am speaking on behalf of Children's as well as the nonprofit hospitals in the Omaha metropolitan area. Before I begin, I would like to thank you for the work that your committee is doing. And I know that you have a difficult job and the answers won't always be easy; but your sacrifice, dedication, and time spent with the citizens to learn more about tax issues across the state is admirable and, I hope, beneficial. As the region's only specialty pediatric hospital with approximately 2,000 employees, Children's Hospital and Medical Center is proud to have earned the distinction of one of the best children's hospitals in the country. Children's operates the only Level 4 Regional NICU in the state, a resource for all communities, offering the highest level of care for critically ill infants. Children's receives patients from all geographic areas of Nebraska as well as the region. In 2012, our patient visits totaled over 370,000. Children's, like other

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nonprofit hospitals located in both Omaha and statewide, work tirelessly to improve the health and lives of children, families, and the communities that we serve. As mission-driven, nonprofit hospitals, our institutions receive tax-exempt status by providing programs and services such as wellness programs, immunization, and healthcare professional education. Traditional charity care is also part of what qualifies us for a tax-exempt status. The amount of community benefit provided by nonprofit hospitals in the state continues to increase every year with approximately \$1 billion in community benefits provided last year alone. With this information as a background, I would like to focus on the issue at hand. The Tax Modernization Committee is charged with reviewing the equity of Nebraska's current tax laws, which by no means is an easy task. We applaud the intent of this process and hope that you will deliberate the information you've received, that any reform efforts moving forward will take into consideration the mission of nonprofit hospitals and not threaten our ability to provide timely, accessible, and affordable healthcare. Over the years, Omaha has gained both national and international acclaim as a medical center of excellence, boasting many of the best and brightest minds in medicine as employees of our institutions and citizens in our community. Our nonprofit hospitals have invested heavily in advancing the reputation by providing outreach and prevention programs, emergency room care, and behavioral health services, regardless of a person's ability to pay or the profitability of those programs and services. As business leaders, Omaha's nonprofit hospitals recognize the importance of implementing efficient business practices, employing incentives to recruit and retain a dynamic work force and support our state and local tax base with competitive salary and benefit packages. Not only are we caregivers to our patients but we work to keep our community strong and financially viable. Increasing the tax burden for nonprofit hospitals by eliminating sales tax exemption or other tax exemption on services will only increase the cost of healthcare at a time when costs are already high. My request this afternoon is for the committee to take a thoughtful approach to this matter and to give careful consideration to what it means to be tax exempt. As a nonprofit organization, our facilities work to earn that benefit by actively supporting our patients and communities through financial assistance for the most

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needy and contributing to programs that improve the health of our citizens. We ask no more than for the committee and others to consider the significance of our mission when determining fair and equitable tax policy. Thank you very much. [LR155]

SENATOR HADLEY: Thank you, Mr. Perkins. Are there questions? Seeing none, thank you very much, sir. Appreciate it. [LR155]

MICHAEL FRYDA: (Exhibit 13) Chairman Hadley and members of the committee, my name is Michael Fryda. I'm a high school science teacher at Westside High School, here in Omaha. Luck would have it that I'm able to speak to you... [LR155]

SENATOR HADLEY: Would you spell your last name for us, sir? [LR155]

MICHAEL FRYDA: F-r-y-d-a. I'm sorry. Luck would have it that I'm at a break from school. I'm not on contract today so I'm here to speak to you today. As a Nebraska Teacher of the Year, I've come to represent the voice of teachers in our state, as well as students. I'm also vice president of the Nebraska State Education Association. I'm representing that association here today. Thank you for this opportunity to testify. Westside Community Schools has seen a significant shift in the demographics of its student population. Ten percent of our students received free and reduced lunch a decade ago and now a full 30 percent qualify. My class rosters are composed of a majority of this group and I am happy to help them, but they come to me with a stacked deck. These are the working poor. Their families are struggling and these kids are supported by the types of programs you provide as state senators: subsidized breakfast, lunch, after-school programs, intensive reading programs, tutoring, anti-truancy efforts. These types of programs all cost money but the cost of not providing these programs is even greater in terms of our individual student's chance at success and ensuing societal costs. We know that students who show up and do well in school are categorically better citizens. They are less likely to wind up incarcerated and they are more likely to be productive citizens who earn and return money to our local

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economies. A specific example of the importance of tax revenue to our state is related to my work with the Nebraska Department of Education. For the last five years, I have written science test questions for the Nebraska State Accountability tests. These tests are Legislature mandated and depend upon taxpayer funds to be written, administered, and analyzed. They serve a very important purpose: to measure Nebraska schools to make sure that we are turning out competent citizens that can contribute to our local economies. With a reduction in tax revenue, our ability to offer programs to support student learning is reduced, potentially resulting in lower NeSA scores. This can make our communities less attractive for investors and prospective home buyers. We all know that our schools are more than just our NeSA scores. But that won't deter people and businesses from writing off our state as the place they want to live or locate a business. That has a domino effect on jobs, property values, and the revenue to sustain our communities. Businesses want a well-educated work force. I've talked a great deal about education because that is what I know. But I spend my days teaching children and working to become a better teacher. I'm also a husband and a Nebraska taxpayer. And I know your charge is to modernize our state tax system. I do not believe that means we shrink the pie, nor do I support shrinking the pie. We need to have the revenues necessary to build roads, provide police and fire protection, educate our children, take care of the elderly and those who are unable to take care of themselves. The purpose of government in a social democracy is to prevent me from having to fight my own house fire and repair the roads I commute to work. Paying taxes to support these essential services are part and parcel of Nebraska's good life. We've experienced some deep cuts to services during the 2008-2012 recession and, while Nebraska fared better than most states, we felt the cuts. We now need to reinvest in the priorities that will move our state forward. Our economy has become more service oriented; so to modernize our tax system, expanding the sales tax to include some additional services, makes sense. With increasing sales over the Internet, the state should maximize its collection of sales tax on those purchases. I do not support cuts to the income tax. If anything, I support an increase in income taxes for the most wealthy individuals, back to the higher, progressive tax rates for the highest bracket that were common in our

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nation's past. I know property taxes are higher in Nebraska than they are in many states. I would also support an income-based state credit for property taxes, if state revenue allows for that. I believe Nebraska really does offer a good quality of life; and whatever you do to change our state's tax policy, I ask you to protect the good things that we have going for us here in Nebraska. I do believe a key to our economic, individual, and societal success lies in maintaining and improving our public schools. That's where our future lies and that's where we need to invest a significant portion of our tax dollars. To close, I want to thank you for your work. I know a number of members of this committee have said they do not support a radical overhaul of our state tax code and I agree. I believe that would jeopardize our economy and it creates uncertainty for all of us. There is a commonsense thing that I've learned to appreciate over the years: moderation in all things. I definitely believe that is this case with any tax policy changes you consider. Thank you for your time. [LR155]

SENATOR HADLEY: Thank you, Mr. Fryda. Are there questions? Seeing none, thank you, sir. [LR155]

DAVE NABITY: (Exhibits 14, 15) Good afternoon. I'd like to thank you all serving on the committee for being here and working hard to figure out how we make Nebraska more competitive. Some years ago...my name is Dave Nabity and I'm just representing myself today. N-a-b-i-t-y is how you spell the last name. Some years ago, I had the crazy notion to try to run for Governor of the state of Nebraska. And one of the reasons that I did was, I was running a financial business and I was hearing over and over again that people that retired were looking at what it costs to live in Nebraska versus other states and making a decision that they could move to other states and save a significant amount of money. So back then, I was hoping that maybe I could get to a point where I could have some influence on what we would do with the tax policy to get more competitive, to move ourselves up to being included in the top ten lowest tax states in America. Well, that, of course, didn't happen. But I did hang onto the research that I did back then. And a lot of the numbers that got pulled together...I had a lot of help from a

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lot of people, but Bob Zabawa, particularly, who passed away in 2012 put a lot of time into what you're going to be seeing here. But just imagine yourself a retired person and regardless of what your socioeconomic level is, and you're trying to decide, do I live in Nebraska or do I move to Florida or Texas or Nevada or South Dakota or someplace else where I can lower costs? And what you're going to have in front of you is the example of a person that pays real estate property tax, income tax, and motor vehicle tax. It's my sense that retirees don't much care about sales tax. They'll move to states that have high sales tax all day long, as long as they don't have to pay income tax or high income tax, they've got lower property tax and they don't have to pay a lot for motor vehicle tax. So if you look at the chart that's in front of you, someone making \$35,000 with a \$150,000 home and two modest vehicles. If they live in Nebraska--Omaha, Nebraska--they'd pay \$5,600 in total taxes. By merely moving to Sioux Falls, they save almost \$3,000; they save \$3,000 if they move to Florida, and you can kind of read it across the board. Wyoming, they save \$4,000 in total taxes. If you make \$75,000 a year, live in a \$300,000 home, and have, you know, a Ford Expedition and a Buick Park Avenue, it costs you almost \$12,000 to live in Nebraska. If you move to South Dakota, you save \$6,600; you move to Florida, you save \$6,800; you move to Wyoming, you save \$9,000. And after being in the Panhandle and knowing you've got Wyoming right there on your edge that people can start their businesses and just jump over the border and save that kind of money. But let's take a look at the high-income earner which is the last sheet. A \$500,000 house, a \$250,000 income, a Lincoln Navigator and a Lexus 470. That person would pay \$30,000 to live in Nebraska. If they moved to Sioux Falls, South Dakota, it's \$8,800; Florida, \$8,400; Texas, \$10,000. You'd save \$20,000 by moving to South Dakota or Florida. That is the problem with our tax code. The way it is structured today, it motivates people with money that could stay here to change their residencies to other low-tax states. And we have to stop that trend. The amount of money that we've lost over the years has to be staggering for people that you and I know have decided to set up residency in another state. So here's a couple of suggestions and then I'll finish up. After talking with the Nebraska Department of Revenue, I'm convinced that if we put in a 3.5 percent flat tax across the board, we'd

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raise exactly the same amount of money that we're raising now. But the nice thing about that is, the military retirees that are wanting no tax, they'd have to pay 3.5 percent tax on their pension. But they would only pay 3.5 percent tax on their second job they'd have here. So it kind of offsets things. The motor vehicle tax: If you look at those charts, we've got to get rid of the motor vehicle tax. If you can license a brand new Porsche in some of these states for \$80 and you look at what it costs to license a, you know, 2005 Ford Explorer in Nebraska, it's ridiculous. It's a huge disincentive for people to live here. I suggest that we expand the sales tax just enough to get rid of the motor vehicle tax. Now back when I was looking at it, I think it was about \$170 million that it would create. So if you talk about people in the lower income brackets that might end up paying sales tax on things they aren't paying today, think about they pay a little bit of sales tax every time they make a purchase as opposed to paying a \$300 check when it comes to the renewal for their automobile. It will allow them to spread out what they were paying lump sum every time the cars got renewed. And I guess the last thing I want to mention is, let's try to model what we're doing sales taxwise off of other states that have done it successfully. Obviously, we don't have the mining revenue Wyoming does and we don't have the tourism that South Dakota does, but we can customize what we're doing. But I'm confident that if you put in a 3.5 percent flat tax and you eliminated the motor vehicle tax, we would be in the top ten lowest tax states in America. You would see this state get economic growth and economic activity like you've never seen, and the jobs would just expand exponentially. Those are my ideas and I hope you'll find them useful. I've been hanging onto this stuff since 2006 hoping that one day the Legislature would be doing this. I even have boards I dug out that I was going to bring up that have been sitting in my storage garage and they're so worn out and messed up that...but I wouldn't throw them out because I thought someday you'd be doing this. []

SENATOR HADLEY: Are there questions for Mr. Nabity? Seeing none, thank you.
[LR155]

DAVE NABITY: Thank you very much. [LR155]

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SENATOR HADLEY: I think he's given his...then we need the green sheet. I'm sorry, he gave the green sheet already to the clerk, so. We'll get you next time. [LR155]

MATT JEDLICKA: Good afternoon, Senator Hadley and members of the committee. My name is Matt Jedlicka, that's spelled J-e-d-l-i-c-k-a. I live in Columbus and farm and feed cattle in my family's operation. If you were guessing you're looking at another farmer up here to complain about the burdens of property taxes on our business, you're right. While I know that you've heard much about this topic since this is now your fourth hearing, I do want to share with you a few points that I feel need to be stated and probably repeated. Your rule of thumb I heard years ago about tax fairness is to gauge the taxpayers' ability to pay and benefits received. I believe that agriculture real estate does not fit these criteria more than any other tax or form of real estate. There's been a lot of change since the start of property taxes (inaudible) 1967 when the tax became (inaudible) in the relationship of agricultural land to, primarily, school funding; by far the largest part of my real estate bill. Ag does not derive as much direct benefit from taxes paid from education. Inflated land values are a big issue today. And a major question is, will it last? While we may be close to seeing the end of a boom in crop production in agriculture, I think they (inaudible) artificially inflated for years to come in relationship to earning capacity due to the fact that we have...due to the amount of ground as what we have today. And, quite honestly, farmers...old farmers like to buy land. And while you can argue that they are making a personal and financial decision to buy that for the price they offer, the fact is very little farm ground is sold each year. There are supply and demand factors that lead to inflated prices, thus increase the appraised values for all land based off of a low volume of sales. Also, farmers traditionally have purchased land as a retirement plan. The higher values and taxes can burden their annuity. All property taxpayers took an extra burden in 2003 during the economic downturn to help out the state budget. The levy lid for schools was raised to \$1.05 from \$1.00. The ag community stepped up at that time and went along to help out because the increase was going to be temporary. That was now ten years ago. I'm in favor of all the calls that

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(inaudible) need to broaden the sales tax base. And from reading in the media, I believe this committee understands that the sales tax exemptions on inputs to the production process are sound policy. And I appreciate that. Finally, I was a member of a tax policy reform commission that issued a final report in November of 2007. I represented agriculture and it was an incredible learning experience for me, and many of my views I share today are from that experience. While it was only six years ago, none of the state senators on that commission are currently serving in the Legislature. I want to share with you the four main recommendations from that report. Number one, provide property tax relief. Number two, broaden the sales tax base. Number three, tax food. And four, a severance tax on ethanol. So the two primary recommendations from that are property tax relief and broaden the sales tax base. And if they were sound policy six years ago, it appears to be sound tax policy for today and the future. Thank you for the opportunity to testify and I would be happy to answer any questions if you have any. [LR155]

SENATOR HADLEY: Any questions? Seeing none, I think this gentleman was on his way up, so. [LR155]

ROB ROHRBOUGH: (Exhibit 16) Thank you, Senator Hadley. My name is Rob Rohrbough, that is R-o-b, last name, R-o-h-r-b-o-u-g-h, and it does appear on the handout you're about to get. I'm here to represent Fair Tax Nebraska. My interest in a consumption tax was piqued several years ago, maybe not quite that long ago depending on my (inaudible). When I had to get up on April 15 and either I was complete or I wasn't. And I grew to hate the income tax and all forms of confiscatory taxes. I...the Fair Tax, as some of you may have heard, is generally regarded as a national sales tax. It is a consumption tax; it's similar to a sales tax. And what our proposal this morning or this afternoon purports to do is to replace both the sales tax, Nebraska sales tax, and the Nebraska income tax with a single consumption tax very similar to the sales tax. But as some people have advocated, much broader. It would tax all consumables, products and services, with, I think, an exemption for education. It would remove the state income tax completely and it would modify the sales tax

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mechanism in Nebraska and using the same personnel to collect the tax. There would be no need to collect an income tax at the state level, so those personnel would be freed up to do other things. It is based on a tax on retail transactions, products or services, and much broader because there would be no exemptions at the retail level. Business to business transactions, however, will not be taxed. And in lieu of that...by the way, that includes food. Food will be taxed. However, to address the poor and to make this a flat or progressive tax, there will be what's called a prebate. We will, based on the federal poverty level, issue a payment every month to citizens and legal residents of Nebraska for the amount they would be taxed if they spent that level of income on their taxes. So that actually is more progressive. Is it really right for rich people to be buying caviar tax free? Probably not. But it certainly is right to protect the needs of the poor. So what is it? It's not a VAT tax. It is a consumption tax. No "B to B" transactions are taxed. You won't be (inaudible) the steel you buy for manufacture here, farmers won't be taxed on the combines or the seed or the chemicals they buy to put on their farms to produce crops with. There will be no payroll taxes at the state level. No withholding for state tax. There will be no need. The tax system will be much simpler in that there will be no need to identify exemptions or do tax credits, whatever. Manufacturers will be happy to move to this state and bring their companies to this state because their income tax will be low. In fact, we'll address some of the issues that Mr. Nabity brought up. The economy...people will come here. The population will increase, and the economy will increase. Our proposal submitted by Derek Heckman--I don't know how many of you got to see that--is for a revenue neutral proposal; so we're not necessarily advocating a reduction of taxes but at least as an individual I'd certainly like to see that. I think most of us would. One of the things, I think some of you have objected to... [LR155]

SENATOR HADLEY: You have one minute. [LR155]

ROB ROHRBOUGH: ...is, gee, what about reducing our sources of income? Isn't it kind of like diversification in our investment portfolios? I think I can make the case--I do not have the figures in front of me, I don't know if Derek does or not--but a

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consumption-based tax has been consistently shown to be more reliable, more consistent over years of feast and famine than the income tax or other forms of taxes. So we think that it's a much better replacement rather than looking for diversification. Who would want to invest in Banana Republic anyway? Thank you. [LR155]

SENATOR HADLEY: Questions? Seeing none, thank you, sir. Next. [LR155]

DEBBIE NEWHOUSE: Good afternoon. My name is Debbie Newhouse, D-e-b-b-i-e and N-e-w-h-o-u-s-e. I really wasn't going to get up and speak but I think that I feel like I need to. I'm actually just a citizen. I'm a business owner. We just opened our business, we've been in business for five months in Papillion. And I'm also on the board for a small town in Nebraska--Murray, Nebraska. I think that, as far as property taxes, I don't mind paying property tax. I think we have to. I think for cities, having that base, knowing what we're going to have to be able to provide services, it's necessary. What is hard is...I sided my house. I don't think even it was three days, I got a property tax increase. I'm serious. I don't even think I wrote the check to the siding company. Now I don't think that my house's value went up in three days. I don't think it went up because I sided it. It should have went down because the house was...the paint was falling off. But I didn't get a decrease because my house looked like crap but I got an increase the minute I put siding on it. I think it needs to be just a straight, across the board, this is what property taxes are going to be. I don't know if we could make it a level tax unless you, like, do major changes, whether you're a business or a homeowner. If you go in and totally remodel your business, you should pay a higher property tax. But if your business or your property stays the same year after year, why do you have to pay more? I'm not going to sell my property for more, it's going to be the same. Unless, you know, something changes, we know that's not going to change. So it should stay pretty level. Cities, they can depend on what they're going to get from their property tax. Sales tax? I think taxing everything in the world is just outrageous. I would rather pay tax on my vehicle than pay a little bit of tax forever, to tell you the honest truth. I think that taxing every little thing creates a problem. And businesses that are trying to stay in business, it

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just takes...you know, I run a veterinary clinic. We don't pay taxes on our services but we pay taxes on all of our medicine and all of that stuff. People come in...there's a lot of people who can't even pay to treat their pets at this point, you know? We help supplement them so they can get the services and we can take care of those pets. Adding just a little bit more tax just increases that burden to them. And not even that, siding, anything, I've made a decision on the bottom line of whether I'm going to do that. I don't look at what I'm going to pay to them and then what I'm going to pay to the state. I look at the decision made on the bottom line of what that costs me, you know? A hundred dollars more or two hundred dollars more changes my decision on whether or not I'm going to do that service. So I think taxing everything under the sun is just a little bit too much. We need to have...however you're going to decide to do it--and I think you guys have a very hard job--is you have to make it somehow that it's just level. Everybody pays it whether it's a straight sales tax on...I don't know if that sales tax is going to work, you know? I think that going to...I think that the state has to provide certain services to city government for schools, for roads, and to help the poor. Beyond that, I think cities have to support themselves. You know, however they're going to do it, they have to support themselves. If you support the city more, we just have to pay you more taxes. I don't know how you're going to figure it out but I think that doing more sales tax is not the answer. Thank you. [LR155]

SENATOR HADLEY: Thank you, Ms. Newhouse. Questions? Seeing none, thank you. [LR155]

DEREK HECKMAN: Good evening, Chairman Hadley, members of the committee. It's an honor to be here today to speak in front of you. My name is Derek Heckman, that's D-e-r-e-k H-e-c-k-m-a-n. During the day I work for the Metropolitan Entertainment and Convention Authority here in Omaha as a staff accountant. But today, I'm here representing Fair Tax Nebraska with my friend, Rob Rohrbough. I just have some brief comments...questions. I would just like to echo all of Rob's comments. I'm fully behind a broad-based consumption tax for our state. As a native Nebraskan and someone who

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lives here, I think it would do amazing things for us economically. If at the end of the year up until April that Americans didn't have to worry about...or excuse me, Nebraskans didn't have to worry about paying income taxes. I think with the system that we already have in place, I mean, we're already collecting sales taxes. And the comment was made that we don't want to make any large, sweeping changes to our tax system. But I believe that the way the Fair Tax would be set up in Nebraska, it would only involve, like Rob mentioned, just broadening the base slightly. And by doing that and by also providing the prebate mechanism for lower-income individuals, you know, that would bring in the same amount of revenue that we would be with the income tax and also the corporate income taxes on businesses. Part of...one of the things that Rob mentioned earlier this spring--and I don't know if any of you have received a copy of it from our chairman of our organization--but I did write a report, just a brief one, that introduced the Fair Tax and kind of how it could be introduced in the state of Nebraska. You know, and as a finance professional, I was just curious, you know, like what rate would it take for our state to bring in the same amount of income. And, you know, I put some numbers together just for my own knowledge, just figuring up what would work. And what I found, just in brief--and I can provide a copy of the report to you, any time, be happy to. What I found would be that if you take together all of the sales taxes--and this is for our most recent annual report for Nebraska, so it would be as of June 2012--take all of our individual income taxes, our business taxes, franchise taxes, and sales taxes; if you use the slightly broader base that would be introduced with a Fair Tax, you would be able to generate the same amount of tax revenue that we generated for the year ending 2012. And what I've found is that the way it would be administered, the rate that I came up with that the Fair Tax would raise in taxes over the tax base for that year, the rate would be...all encompassing, would be about 6.87 percent which equals...you know, statistically correlates with our combined 7 percent rate. So I'm fairly confident of what I put in that report that, you know, could be...the Fair Tax could be applied and I think without the hindrance of that income tax and without taxing businesses on their profits. I agree with some of the other comments that I think...

[LR155]

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SENATOR HADLEY: You have one minute left. [LR155]

DEREK HECKMAN: ...you would see individual businesses just flock here. The people who are already here, you know, in the state, could be encouraged to, you know, to improve economically, start businesses, and they wouldn't be worried about income taxes. And, you know, after they file their 1040, they're done for the year. [LR155]

SENATOR HADLEY: Okay. Questions? Senator Hansen, then Senator Mello. [LR155]

SENATOR HANSEN: So you're an accountant. Is that correct? [LR155]

DEREK HECKMAN: Yes, sir. [LR155]

SENATOR HANSEN: That's what you started out saying. I have a question about Internet sales and maybe your opinion on that. I'm not exactly sure, the number kind of floats around there, how many dollars we're missing out on the use taxes for purchases out of state. Fair Tax help that at all, you think? [LR155]

DEREK HECKMAN: Well, of course...I'm not familiar with, like, with the exact number. You know, as someone who is on iTunes and purchasing things on-line frequently, (inaudible),... [LR155]

SENATOR HANSEN: (Inaudible). [LR155]

DEREK HECKMAN: ...that it's pretty great. But, you know, the Fair Tax would apply to that. So Nebraska would be collecting sales taxes on those sales because it's a new...because it would be a new good at the retail consumer level. [LR155]

SENATOR HANSEN: Would it be at the same rate? [LR155]

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DEREK HECKMAN: It would be. [LR155]

SENATOR HANSEN: An out-of-state purchase would be the same rate for a Nebraska resident, is that correct? That's what they talk about making the Internet sales even across the country. But the big thing that I think they're hung up on is they say there's 9,600 cities, municipalities, counties, collecting their tax. If they're not in the state, don't you think it would be fairer if we just collected the state tax on Internet sales, and it's simpler for everybody? [LR155]

DEREK HECKMAN: I would assume that. That would be the case if you made a purchase here within the state, that that would be the rate you would pay (inaudible)... [LR155]

SENATOR HANSEN: On-line. [LR155]

DEREK HECKMAN: ...would be the Nebraska rate. Does that answer your question? [LR155]

SENATOR HANSEN: Yeah. I think so. I'll talk to you later (inaudible). [LR155]

SENATOR HANSEN: Senator Mello. [LR155]

SENATOR MELLO: Thank you, Chairman Hadley. Derek, thank you for your testimony. I appreciate new ideas about new economic fiscal theories. But the reality is, we're in south Omaha here. And I don't believe it's far west of where the campus is. The south Omaha bridge is about a minute north of us that takes us directly to Council Bluffs. What would...if we instituted a Fair Tax, like you suggested, what would keep me from not driving that six minutes over to Council Bluffs to purchase all of my goods simply to bring them back to my home in south Omaha? [LR155]

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DEREK HECKMAN: Well, I think the distinction there, you really have to...it would maybe be a discussion to chart for another day but, you know, the distinction there between myself and someone who lives in Iowa, personally, I would prefer to stay on this side of the river, you know, for everything. But what I'm looking at, at the end of the year, is that, you know, on all of my purchases that I've made through the year...a good example would be a vehicle. Okay? I could go over to Iowa and they would have their sales tax whether it's new or used. Here in Nebraska, of course, hypothetically with the Fair Tax, you would only pay that tax on a new vehicle. So if you bought a used one, of course, the tax would already be paid originally so there would be no change. However, compared to some...to a resident of Iowa, at the end of the year when I looked at my paycheck, I see my salary, I see federal withholding, Social Security, Medicare, maybe my health insurance taken out. But no state withholding at all. No state income tax is paid. So when you count up, you know, that total amount throughout the year, I think income taxwise, that adds up pretty quickly. And that, for me, being someone who keeps a close eye on my funds month to month, you know, that's money that I am to go, you know, buying things with, and, of course, paying the tax for it, or I'm saving or investing or, you know, saving it for college, those kinds of things. [LR155]

SENATOR MELLO: I appreciate that explanation, Derek. I guess I just don't understand, if Nebraska is the only state to implement this kind of tax system and no other surrounding states implemented it, what would keep Nebraskans from not buying their goods and services from a cheaper state with a lower sales tax and/or when they don't even tax some of those services because the Fair Tax is based on the expanding the base to tax a variety of...a litany of more services and goods. I just...I'm trying to get my head wrapped around why someone who lives in Omaha wouldn't drive the ten minutes to simply not pay any sales tax, frankly, on anything for that matter, and simply drive back home to Omaha and pay no income taxes as well. I'm just trying to get my head wrapped around why that would be good fiscal policy for, I guess, just those cities that have other states surrounding them. [LR155]

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DEREK HECKMAN: Sure. And I guess...valid point, of course. The issue that steps in with that would be more just an enforcement issue, because, I mean, there would be nothing--especially here with, you know, I think it's L Street, the bridge just goes right across. There was...I lived in Oregon for a time. Last year, just recently I moved back home (inaudible). But the state of Oregon and Washington, they had the same issue because in Oregon they didn't have a sales tax. So you would have individuals that would live across the...they would try to live across the river and then they would come to Oregon, of course, and buy their groceries tax free. So what both sides started to do was, you know, really keep a close eye out. You know, ID people and, you know, instituting the use tax and really cracking down on that so that, you know, if you're coming over to Oregon but you're not a resident, that, you know, you're paying those actual sales taxes that you should be for each state. So that would be more of an enforcement thing that we'd really have to watch. [LR155]

SENATOR HADLEY: I have just one quick...that you can answer in 30 seconds. How many states have instituted Fair Tax? [LR155]

DEREK HECKMAN: Currently, I believe there's a bill in the Kansas legislature. I don't think it's been up for consideration. A lot of states have talked about it. [LR155]

SENATOR HADLEY: Has any...have any instituted a Fair Tax? [LR155]

DEREK HECKMAN: It sounds scary, but they have not yet. [LR155]

SENATOR HADLEY: Okay. [LR155]

_____: May I step in for a moment? [LR155]

SENATOR HADLEY: No, I'm sorry. We're having a hearing. Yes, Senator Schumacher.

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[LR155]

SENATOR SCHUMACHER: As I understand it, sales taxes or fair taxes are not deductible as an item of federal income tax, while state income tax is deductible. So to the extent we lower state income tax or get rid of it and shift that burden to a sales tax--let's say you're paying federal income taxes at a 33 percent rate--don't we just send a bigger check to Washington? [LR155]

DEREK HECKMAN: Well, I guess what you would have to look at is, it would be similar to what happens in other states such as, like, Wyoming or South Dakota, where, you know, from what I believe, I don't think those residents have that write-off either. What covers that deduction of that state income tax, there's actually a line--and it's an option on the Schedule A for your itemized deductions if you're familiar with the schedule. I believe that you keep records for all of those sales taxes throughout the year, which would include the Fair Tax in Nebraska that you would be able to deduct because that would be a deduction. [LR155]

SENATOR HADLEY: Okay. Thank you. Thank you, Derek. I think we need to get on to the next person. I'm sorry, is there another question? [LR155]

SENATOR NORDQUIST: Yeah, I have one quick one. [LR155]

SENATOR HADLEY: Go ahead. [LR155]

SENATOR NORDQUIST: Does your 6.87 percent include the 1.5 percent city option? Or would that be on top of that? [LR155]

DEREK HECKMAN: Oh, the 1.5 (inaudible)? [LR155]

SENATOR NORDQUIST: Yeah. Yeah. Yeah. Yeah. [LR155]

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DEREK HECKMAN: This, from what I took was just...was all the sales taxes collected. I think...from what I believe on the report, it all comes in and then it's disbursed later. [LR155]

SENATOR NORDQUIST: Okay. Thank you, sir. [LR155]

SENATOR HADLEY: Okay. Thank you, Derek. [LR155]

DEREK HECKMAN: Thank you. [LR155]

SENATOR HADLEY: And the way we're going to do it, we're going to take one from this side, then this side, this side, this side, so we can... [LR155]

_____ : Negotiate it (inaudible). [LR155]

SENATOR HADLEY: Yeah. Okay, good. Well, okay. I just want to be fair to everybody and, you know...I know, that's right. We don't want anybody banging into each other coming up, so. You might fall right up here on the table. Yes, sir. [LR155]

ED BISHOP: (Exhibit 17) Mr. Hadley, thank you for your time. I don't think you'll need your finger. I'll be brief as possible. My name is Ed Bishop, that's B-i-s-h-o-p, and I'm from Fremont. I'm the manager of a monthly coin and bullion show which is held in Omaha for the last 40 years. I'm a life member of the American Numismatic Association, the Central States Numismatic Society, and various Iowa and Nebraska organizations. We meet on a monthly basis. We come into a hotel, here--and most of them have been on 72nd Street--and rent a room just like this here. Pay sales tax and use tax on that. And then I lease out tables to other coin dealers and I also pay sales and use tax on that. Dealers and investors come from several states besides Nebraska and Iowa. I get, regularly, people from Missouri and Kansas and South Dakota, and sometimes from the

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entire United States, people will be flying through or traveling through. They are usually professional dealers looking for purchases and they will stop by. These people rent rooms, get lodging, food, entertainment, and also if their spouses are with them, they'll go shopping. In five states that surround us, there is sales and use tax on precious coins, precious bullion. I'm sorry to say, excuse me, there is no sales tax on those states. The only state that still taxes those is Kansas. Missouri, Iowa, South Dakota, Colorado, Wyoming, exclude it. Because of that, I cannot be competitive with other dealers in other states because when people come to me and ask me how to invest in gold or silver, I have to honestly tell them I can't be competitive. I only charge \$10 to \$20 above what it actually costs me for an ounce of gold or silver. But the sales tax of approximately \$100 kills my sales. And I just...I tell the people, to be honest with you, you're better off buying it elsewhere and storing it in a facility in that state or other states so you don't have to pay the taxes. What other investments are there that caused you to charge sales tax? The banks don't. I don't think you have them on stocks or anything. I don't know. What investments do you have that you pay sales tax on? That seems to be the problem. We've lost a lot of dealers and investors who won't come to our show because they have to pay the sales tax. So in February, I made a contract with the Hilton Garden Inn in Council Bluffs at the Horseshoe Casino. Our show has moved there. We have no sales tax, don't even have a use tax. Don't have a use tax on that room. That's saved us a lot of money and has brought back dealers who had quit coming to our show, and investors, because they can then buy their investments without paying sales tax. There is a larger economic impact to be talked about on this. My friend, Mr. Ernst, will give us figures on that. But believe me, there's quite a bit of money that's spent across the river, legally, to buy their investments. My minute is up. [LR155]

SENATOR HADLEY: Thank you. Senator Janssen. [LR155]

SENATOR JANSSEN: Thank you, Chairman Hadley. Thanks, Ed, for showing up here today. I appreciate it. And just as a matter of background, I spoke to Ed the other day and asked him about coming up and speaking. He didn't know this was happening and I

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told him about it. And I said, well, you know, the testimony a lot of times is the same. And as Chairman Hadley always says, there's nothing wrong with saying, I agree with the person behind me. And he goes, well, I bet you haven't heard this one yet. And you're right, that's the first time we've heard about this. But it is an illustration of businesses that people probably aren't totally aware of and the fact that you chose to take it out of the state and also out of the community that I represent in the district. So I think it was great testimony and thank you. [LR155]

ED BISHOP: Thank you, sir. [LR155]

SENATOR HADLEY: Thank you. Seeing no other questions, thank you, Mr. Bishop. [LR155]

ED BISHOP: Thank you, sir. [LR155]

SENATOR HADLEY: Next, sir. [LR155]

KEN WEST: (Exhibit 18) Good afternoon. Senator Hadley, members of the Tax Modernization Committee, my name is Ken West, W-e-s-t. I appreciate the opportunity to share a few thoughts today with regard to taxation on professional services; in particular, architecture. I'm president of the AIA, the American Institute of Architects in Nebraska for this year. And I've had the opportunity of, you know, having a 37-year career in architecture in the state of Nebraska and I'm a resident of the state and I'm very proud of that. I'm also a principal of the DLR Group and we're one of three of the largest architectural engineering firms in the country that's located in Nebraska. And we have offices in 19 cities across the country besides Lincoln and Omaha. And so we have...we take a look at these things and relative to taxation of architectural services, and again, there's a lot of things that have...that create several issues relative to potential issues if that would come into play. I'm going to share a few of those with you today and what we see as potential consequences or issues that would be a result of

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that. It could be a loss of firms and weakening of economic bases. There's large firms such as ours and others that might consider moving their headquarters or their central points of operation. There's firms of all sizes located across Nebraska, near Nebraska's borders that would consider locating across state boundaries if they had to deal with these taxes. Smaller firms, and due to a lack of integrated skills, may be required to outsource, you know, additional resources to support their efforts, which would increase their overhead of operation. There's also the possibility the total employment in the state could be reduced by as many 4,000 primary and secondary jobs which would have a potential impact of payroll loss to the state of maybe close to \$160 million. With regard to other items that, you know, possibilities, sales tax penalizes small firms. They don't have the operating, you know, profits to deal with these additional taxes, and all they would have the opportunity to do is to pass those taxes on to their consumers and their clients, which could, you know, all it does is pass the tax on down the road. Large integrated firms (inaudible) outside services and probably it could deal with. There's also the tax pyramiding. A third issue would be tax pyramiding. Many firms basically hire consultants to, you know, support additional service to them. As architectural firms, they may, you know, subcontract with an architectural firm or other specialty areas. Lots of times, those firms are from outside the state so you have...they have the requirement of taxing. You tax them on taxes and so you have tax pyramiding that potentially could take place. And this becomes a very administrative, difficult task to manage. You know, will those people really pay the taxes? And how many people are you going to have to hire to enforce this tax that will be imposed upon these services? It also puts Nebraska firms at a competitive disadvantage. Our firm, as well as many others, do perform services outside of our state boundaries. If we have sales tax...you know, a tax on services that we have to take and can take abroad, we cannot compete with other firms that are in states that do not, you know, like Texas. And so, therefore, it creates a burden upon us which, therefore, basically says, how do we maintain our present livelihood or the sizes of operations that some of us have and still compete nationally and, in some cases, internationally. So this becomes a great deal of a burden to our profession. In public building...another one is public building construction and

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renovation. We have the responsibility of health, safety, and welfare of our built environment. We have...you know, it imposes a threat that those people might consider. Might consider, you know, looking for cheaper alternative resources, and we basically put at risk our built environment and the environment that we all appreciate here in the state of Nebraska and that's what we're trying to achieve. I would express my...and real issues relative to administrative challenges but also think this is a very regressive tax in terms of, you know, what it means to our state, you know, in terms of a portion of income tax paid decreases and income tax increases. The tax is progressive with proportion of income paid and the tax increases as income increases. So a regressive tax means lower-income households pay larger percentage of income tax. And so this just basically is a domino effect upon who we, you know, the (inaudible) buying power of those within our community. There was a recent nationwide poll, just in the last couple of years, done by Clarus Research Group. That was a bipartisan, full-service survey research firm that indicated that 81 percent of voters agreed that state sales tax on professional services should not be expanded to cover services such as legal, medical, advertising, architectural, and accounting services, claiming that this new tax could cause their state to lose businesses and jobs to other places that do not have this type of tax. [LR155]

SENATOR HADLEY: Okay. [LR155]

KEN WEST: It creates, really, a great deal of burden upon our profession. Again, I thank you for this opportunity. I wish you...we wish you the very best in dealing with this and creating a new tax code and making the modifications that's necessary to reflect and support the state's needs, and that's fair to all businesses and supportive of the state's economic development objectives. Thank you. [LR155]

SENATOR HADLEY: Senator Schumacher. [LR155]

SENATOR SCHUMACHER: Thank you, Senator Hadley. And thank you for your

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testimony. You indicated you were an architect with a company that has offices in 19 different cities across the United States. This isn't related to the sales tax but I think you might be in a position to help us out on an issue that we've had some controversy in. [LR155]

KEN WEST: This is going to be a tough one, isn't it? [LR155]

SENATOR SCHUMACHER: It's going to be a tough one. And, you know, you're a well-educated profession capable of making decent money, the kind of people we'd like to attract to Nebraska. To what extent has your experience been that our income tax is driving people away from the state? [LR155]

KEN WEST: You know, the one...income tax...I don't know as I...you know, from an income tax standpoint, I'm not sure that it is that big an issue. I know, I think, property taxes are a bigger issue than the income tax side. At least, I guess I could say that's my opinion. I think one of the biggest things that we have is who we are, because the state of Nebraska, the quality of life, the opportunities that we have here, our educational system which I know is first and foremost in your minds, as it should be, because that's who we will be in the future is through our educational system. But I think, you know...and I've raised three adult children now. I've had the opportunity that I have two of them that have come back here. I, hopefully, have the third one come back. They all appreciate, after having gone away, the quality of life that we have here in the state of Nebraska. And that's why I think this is so very, very important because they do look at these things. They do look at our tax burden. The comments that I get from others that we had working here that went to open other offices or work in our other offices, the biggest comment they have is the taxes in the state of Nebraska are too high. And yet, there's a balancing act that we have to...that you're challenged with, and I respect, you know, what you're going through right now to generate the revenues that we need, with a state of limited resources, to provide us the quality of life that we all like and appreciate. With that, I thank you. [LR155]

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SENATOR SCHUMACHER: Thank you. [LR155]

SENATOR HADLEY: Thank you, Mr. West. Okay. By the way, I would take anybody. You know, come on up, sir. If there's anybody that thinks our tax system is great, I would make a, you know, place up here for you to come up and testify any time you want to. [LR155]

SENATOR SCHUMACHER: Would you hold them to five minutes? [LR155]

SENATOR HADLEY: No. If you think our system is great, you can talk for the next hour if you want to. [LR155]

RON MATSON: Hi. My name is Ron Matson, that's R-o-n M-a-t-s-o-n, I'm the owner of Papio Coin and Auction Service of Papillion. I'm here to testify also on a tax exemption for bullion, precious metals, coins, currency that are collectibles and investments. From what Mr. Bishop said earlier, of Fremont, about the state and every state around it, they have some type of a tax exemption on bullion, metals, coins, and that type of thing. And Senator Mello, here, from south Omaha had the insight to mention about going across the river. The coin and bullion dealers in Omaha and the surrounding eastern side of the state, we see people crossing that bridge daily and that's why a lot of the coin shows are moving out of the area. In 2012, there were 14 Omaha coin shows. This year, 2013, there are four. Next year, 2014, there will be one and it will be right in this room with the Omaha Coin Club. I'm also a chairman of a coin show and I'm seriously considering moving it to Council Bluffs just because of the sales tax implications. I say with Senator Mello, with the insight, I appreciate him bringing up (inaudible) we're losing all this. And you might say, well, how are we going to repay any of the lost revenue? Well, you're not getting it now because it's all going over the bridges to other states right now. I guess I'm open for questions. I do thank Senator Hadley and all the members of the committee for this opportunity (inaudible). [LR155]

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SENATOR HADLEY: Are there questions for Mr. Matson? Seeing none, thank you.
[LR155]

RON MATSON: Thank you. [LR155]

SENATOR HADLEY: Next. Could I see a show of hands how many people still are waiting to testify? Okay. We'll get through it. [LR155]

TODD CHAPMAN: (Exhibits 19, 20) Thank you, Senator Hadley and committee. My name is Todd Chapman. I represent the Nonprofit Association of the Midlands. We are a statewide membership organization that represents nonprofit organizations of every type. Nonprofits in Nebraska provide services to everyone, from the most vulnerable to the most resource secure. In fact, every Nebraskan uses a nonprofit every day whether they know it or not. Nonprofits shelter the homeless; feed the hungry; conserve land and protect environmental resources; care for the elderly; rehabilitate the fallen; educate and provide safe environments for youth before, during, and after school; provide spiritual guidance and religious services; serve as liaisons between public officials and people they serve; entertain through theater, music, and art; disseminate information about issues concerning their communities; and encourage civic engagement. The list goes on. Our bottom line is a better community and we tackle some of the largest issues facing society but do so on very small budgets. As a partner with government, nonprofits offer a cost-effective way to deliver essential services and execute programs effectively because we are able to employ unique strategies, leverage volunteer power and mobilize grass-roots relationships. Organizationally, we exhibit flexibility in order to mirror the environments in which we operate. But I emphasize the phrase "partner with government" because our sector is unable to deliver on its own the services necessary to maintain the good life in Nebraska. Our concern is that a reduction in state revenues would be an attempt to shift the responsibility for delivering these services solely to the nonprofit sector, which begs the question: Should the delivery of essential services rest

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largely on the generosity of key benefactors? While passionate and generous individuals in local communities have a great impact on the quality of life in Nebraska, a reduction in state revenues--and thus an inevitable reduction in services--is paramount to leaving essential services to a kind of charitable free market, subject to philanthropic particularism. Left to such a system, some would benefit more greatly than others. Research suggests there is strong evidence that nonprofit organizations providing safety net services have historically been reliant on government rather than charitable support. And so it is the responsibility of government to provide the balance necessary through an equitable tax code and sufficient tax revenues. Even if the committee is able to achieve revenue neutrality, a reduction in personal income taxes would mean an increase in other regressive taxes, shifting the tax burden down the income scale, eroding the middle class and pushing the affordability of basic needs out of reach of lower- and middle-income citizens. Nebraska has already suffered a decade of cuts to key services like education and healthcare, services for which demand will not decrease just 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. And while we can't speak for the private business sector, we imagine that what has and will continue to attract them to Nebraska is a healthy and educated work force and safe and stable communities, things which are critical to our economy and the achievement of their own bottom lines. While these dynamics are often facilitated by the efforts of nonprofits, they require investment from the state and are only possible with a tax code that provides enough resources. On behalf of the nonprofit sector of the state, we applaud the efforts of the Tax Modernization Committee as it continues a thoughtful, comprehensive, publicly engaged and evidence-based study of Nebraska's tax system. We have been and will continue to educate nonprofits, board members, and donors on how the recommendations given by this committee will impact our community. Nebraska's economy is among the strongest in the nation and weathered the greatest economic downturn in 80 years, better than nearly every other state. Please rank equity 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

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and local governments, in partnership with nonprofits, to continue delivering the services which make Nebraska a great place to live. Thank you for your consideration.

[LR155]

SENATOR HADLEY: Are there questions for Todd? Seeing none, thank you, Todd. We appreciate it. Next. [LR155]

MITCH ERNST: (Exhibit 21) Good afternoon. I hope it's still afternoon, I can't see the clock. My name is Mitch Ernst. I'm president of the Omaha Coin Club, I'm president of the Nebraska Numismatic Association, and I also serve as a governor in Central States Numismatic Society. It's a 13-state organization that reaches from Ohio, Kentucky, to Nebraska, Kansas, South Dakota. I'm passing out in front of you, information on what a convention such as what we hold at Central States can mean to the state of Nebraska and the hosting city. For five years, I've been trying to get one of these type of conventions to Omaha. I'm from Omaha, it's the largest city, it's the logical choice. My first attempt, my response was, from the national organization, don't ask, we won't come. I asked, why? Sales tax. The same answer was given on the organization that I now serve as a governor. The major factor for determining locale for a type of convention this size is the sales tax. Dealers would prefer to stay in a place where they do not have to deal with that. As you can see on the handout I gave you, a convention like ours brings in 1,500 hotel room nights. You can...I gave you the amounts of what that could mean. Also, the possibility of 1,000 more nights that were not accounted for because that's the 1,500, just in the host hotel that we have; 750 dealers, staff, and family that come in attendance. You think of, as you see on the sheet, an average stay of 3.5 days. That amounts to over 2,000 person-days in an area. That's a lot of discretionary spending that people can bring into the state. I'll let you look over this. I won't bore you with all the details. As I mentioned, I'm also the president of the Nebraska Numismatic Association. We put on an annual show, as well, and we hold it in different cities around the state. This year it was in Fremont, next year it will be in Lincoln, 2015 it will be in Kearney. But it's becoming increasingly more difficult for us to

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attract dealers from outside of the state of Nebraska to come to a show in the state because of the sales tax issue. [LR155]

SENATOR HADLEY: Thank you. Questions? I have a quick question. [LR155]

MITCH ERNST: Yes. [LR155]

SENATOR HADLEY: Our tax code, sales tax is based on point of delivery. Why wouldn't you just send by insured mail the bullion or the coins and then you don't collect any sales tax on the people buying from outstate. [LR155]

MITCH ERNST: From people buying from out of state? [LR155]

SENATOR HADLEY: Yeah. If they come to the state and you ship it to their home address... [LR155]

MITCH ERNST: Ed could probably address that. Ed? [LR155]

SENATOR HADLEY: I...you know, can't do that. Let's...can't do that. [LR155]

MITCH ERNST: No, you can't. I don't believe that. [LR155]

SENATOR HADLEY: But I think, you know, it's the point of...when you... [LR155]

MITCH ERNST: As far as...that's new...from what I understand, it's collectable at the point of...at time of sale. But I just (inaudible). [LR155]

SENATOR HADLEY: Okay. No problem. No problem. No problem. But I might give you a tip that that...you might check into it. [LR155]

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MITCH ERNST: If that is the case, I would think people who make their living doing that would know about that (inaudible). So I... [LR155]

SENATOR HADLEY: Okay. Thank you. Next. [LR155]

JULIE KAMINSKI: (Exhibit 22) Thank you for coming and listening to us. If you have any tips for me, Senator Hadley, I'll take those too. My name is Julie Kaminski, K-a-m-i-n-s-k-i, and I'll keep this short. I'm the executive director for LeadingAge Nebraska and we represent the nonprofit providers of senior housing and services across the state. And so I guess my ask or request, respectfully, to you is, as you look at modernizing our tax code, to retain the present tax exemptions that nonprofits have. They are a huge community asset to our state. And taking those away would have an adverse impact on our Nebraska seniors. And for so long, our members have been asked to do more for less. If any of those exemptions were pulled away, they would have to do less with less. So again, just respectfully, ask you to (inaudible). [LR155]

SENATOR HADLEY: Thank you. We appreciate it. Great testimony. Now the rest of you, just pay attention to that. Next. [LR155]

HENRY DAVIS: Good afternoon. My name is Henry Davis, president of Greater Omaha Packing Company, located at 30th and L Street, just three blocks north of this facility. At Greater Omaha, we process 2,500 head of steers per day. We have 875 employees and produce prime and choice beef which is marketed domestically and exported to over 40 countries. The beef business is a high volume, low margin industry, dominated by four corporations that manufacture 84 percent of the beef produced in the United States. I'm also a member of a coalition of manufacturing businesses including Skinner Baking Company, Kellogg's, Nebraska Beef, and others who united four years ago to work with the city to change the combined sewer overflow rates as a result of the \$3 billion unfunded federal mandate to separate the sewer lines and replace certain water lines in Omaha. I appreciate the opportunity to talk to you today about the changes in

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the tax system that you are contemplating and some ideas that have previously been discussed. Our coalition first heard about the possible changes in the tax laws during the last legislative session with the introduction of LB405 and LB406. Those bills, among other things, repealed a number of tax exemptions used in the manufacturing process. If it had become law, it would have been devastating for my low margin business, as more than \$17 million of supplies that we purchase on an annual basis would be taxed. This would amount to an additional sales tax expense of nearly \$1.2 million for Greater Omaha Packing Company. In addition, all the new equipment that is purchased would be subject to the same 7 percent tax. In the last 12 months, Greater Omaha has updated and/or replaced nearly \$2 million of production-related equipment. If the proposed tax changes had become law, these purchases would create an additional \$140,000 in expense for my company. As we have learned in discussions with the state and the city of Omaha during the sewer rate negotiations, manufacturing companies have a huge impact on our economy. For every manufacturing job the state loses, it affects seven other jobs. During the lengthy four-year process of negotiating for a fair formula to pay for the \$3 billion CSO project, some companies not able to delay expansion plans were forced to other cities and states. Skinner Baking invested in a plant in Texas. Kellogg's and Tyson shifted some production out of Omaha and out of our state. As I mentioned, I am in the beef business, and my competitors in this industry are very high volume, efficient corporations like Tyson Foods out of Springdale, Arkansas; Cargill, the largest privately held corporation in the United States; National Beef Packing, located in Kansas City, Missouri; and the Brazilian company, JBS, the largest food and beef producer in the world with its U.S. beef headquarters in Greeley, Colorado. None of the beef produced by National Beef Packing is produced in Nebraska and only a small portion of the beef produced by Tyson, Cargill, and JBS is manufactured in Nebraska. But 100 percent of Greater Omaha's beef is produced in our state. Tax changes that place me and other manufacturers in Nebraska, which compete both nationally and worldwide, into an uncompetitive business environment will force us into a position that is not sustainable. A couple of days ago, Senator Heath Mello announced that he will introduce legislation to ease the burden that Omaha taxpayers

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and businesses face from the federally mandated and unfunded sewer project I discussed earlier. Under the legislation, a portion of the state and city sales tax levied on increased sewer fees would be returned to the city of Omaha. This kind of tax change we would welcome, as we face significant increases in our utility costs because of this project, the largest infrastructure project in the state of Nebraska which we were told four years ago would cost \$1.8 billion and now it is estimated to cost over \$3 billion. As you move forward in your discussions and look at proposed legislations, we hope you keep the facts about the importance of manufacturing companies in mind. Omaha and the state of Nebraska enjoy lower unemployment than most of our country, partially because of the diversified manufacturing of the companies located in our city and in our state. We appreciate being able to discuss any proposed (inaudible) and let you know the impact they will have on our companies. Thank you for the time and hard work that you do on these issues. [LR155]

SENATOR HADLEY: Thank you, Mr. Davis. Any other questions for Mr. Davis? Thank you. [LR155]

HENRY DAVIS: Thank you. [LR155]

SENATOR HADLEY: Next. [LR155]

MATTHEW LITT: (Exhibit 23) Chairman Hadley and members of the Tax Modernization Committee, my name is Matt Litt, L-i-t-t. I'm the new state director for Americans for Prosperity-Nebraska. Again, we're a grass-roots free-market advocacy group with over 40,000 members statewide. I'll be as brief as possible. We're very pleased to see the vibrant discussion that's been happening about the tax policy in this state since the last legislative session. And we're looking forward to the proposal you all submit and to the legislation that comes from it. As we've heard, there's a growing consensus on work must be done in the area of sales tax. And we, like many others, would like to see a broadening of the base with a lowering of the rates. Property taxes also need to be

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addressed and it seemed to be the most difficult issue that you all are faced with. It's balancing local needs, local government restraint or lack therefore--depending on who you ask--and government's role in it all, and this is a difficult task. Further means of limiting property tax growth should be taken. We just ask you to avoid increasing state aid. And as someone pointed out, it generally leads to higher taxes all the way around. We propose that your main focus be on cutting income tax rates for individuals and businesses. There's general agreement that corporate income taxes are passed on to consumers resulting in higher prices, lower wages. And these affect everybody in the state. Cuts to individual income tax should also be made because taxing income discourages wealth creation and long-term growth. These opportunities are especially needed for lower- and middle-income citizens and their families to prosper in the long term. Finally, the issue of double taxation should be addressed. At a minimum, local governments should not be allowed to levy occupation taxes on products that the state imposes taxes on as well. And we also support efforts to keep local governments from placing occupation taxes on these items that are already subject to the sales tax. And state lawmakers should stop local governments from taxing the citizens twice for the same thing. Overall, we want tax reform that lowers rates, flattens brackets, broadens the base, is simple and as fair as possible. We would like to see changes reduce tax revenues collected and reduce state spending. Our members and I are very interested in the final proposal and the legislation next session. Thank you. [LR155]

SENATOR HADLEY: Are there questions for Mr. Litt? Seeing none, thank you, sir. Next. [LR155]

MITCH MERZ: Hello. I'm Mitch Merz, M-e-r-z. I'm from Falls City, Nebraska, and I'm here to represent Merz Farm Equipment. I'm a member of the Iowa-Nebraska Equipment Dealers Association, obviously here for the sales tax on ag repair parts. Our family dealership is...we just celebrated our 60th anniversary and the third generation to our family dealership. We're located three miles from the Kansas state line. We're located nine miles from the Missouri state line. We have customers in all those states as

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well as Iowa and Nebraska, of course, too. Our direct competitors are our closest John Deere dealer, New Holland dealer, and Case International dealers, are all 17 miles away, as well as our closest AGCO dealer, which we also represent, within 25 miles. A few years ago, we were annexed into the city of Falls City, so we have a full 7 percent sales tax on any of our ag repair parts, which the industry average for sales margins on ag repair parts is about 10 percent. Therefore, for me to price match my competitor, I have to cut my margin down to 3 percent just to price match if they are at a 10 percent margin. And a lot of times that is the case. Just as Senator Mello responded earlier, you can drive six miles over to Iowa. We're 17 miles away from our closest competitors on high-dollar parts. That's the case on a lot of different times. Our local or our customers that have our brand, Massey Ferguson farm equipment, that are out of state, when they do purchase high-dollar parts, they are aware of shipping out of state, as Senator Hadley said. Most of them will call over and say, just ship it to me. It's not that important for me to come over and pay sales tax, so. That happens on a regular basis in our industry. The use tax, for the people that go out of state and bring it back into the state for the John Deere guys or whatnot, that's difficult to collect. You guys all know that. It's less than (inaudible) on this side of things. With the lower margins, the lower income that the Nebraska dealers have compared to our neighboring states, that lowers our income tax. That also limits the amount of employees that we have. Just in Richardson County, I can name 15 Richardson County and Nebraska citizens that drive out of state to work at those Kansas dealerships, those three dealerships. They're interested in that type of work, they're former farmers that want to be mechanics, their sons may not have the farm to come home to so, they go and become ag mechanics. We can only hire a certain amount of them. We're trying, we're adding three or four, we've got an intern program, we're adding as many employees... [LR155]

SENATOR HADLEY: One minute. [LR155]

MITCH MERZ: We're working on that. The other part is, when they go out of state, typically, a farmer picks up parts when he goes to town. Goes to town for lunch, goes to

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town, whatever. When they go to pick up parts in Hiawatha, Kansas, that's where they're, typically, going to eat lunch, maybe get fuel, maybe see a pickup that they go buy, whatnot down the road. Finally, AGCO, which is the manufacturer of farm equipment that we sell, has already expressed the idea that long-term solution in Falls City, Nebraska, is not a physical location that they see a dealership. They advised us not to make additions and expand onto our current facility. Because we were so close to the state line, they did not see that. They do, on the other hand, look at the Kansas line. Highway 36, there's two dealerships within ten miles in Sabetha, Kansas, and Marysville, Kansas, that they have both worked with. Both of those dealers are lower volume dealers than we are, but yet, they see those as long-term solutions and not Falls City. So this is a major issue. [LR155]

SENATOR HADLEY: Thank you. Any questions? Senator Hansen. [LR155]

SENATOR HANSEN: One quick question. Mr. Merz, thank you for coming today. Does Kansas have sales tax on labor? [LR155]

MITCH MERZ: Not to my knowledge. [LR155]

SENATOR HANSEN: I think they do. [LR155]

MITCH MERZ: Okay. [LR155]

SENATOR HANSEN: But not on a repair part. Do you know anything about Missouri? Do they tax labor at all on service? [LR155]

MITCH MERZ: I'm not sure they have any sales tax on labor. [LR155]

SENATOR HANSEN: We're working on this problem for next year. Appreciate your being here. [LR155]

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MITCH MERZ: Good, I appreciate it. [LR155]

SENATOR HADLEY: Thank you. [LR155]

MITCH MERZ: Thank you. [LR155]

SENATOR HADLEY: Next. [LR155]

ERIC NELSON: Thank you, Senator Hadley and members of the committee. My name is Eric Nelson and I'm here today as a board member for Voices for Children in Nebraska. At Voices for Children... [LR155]

SENATOR HADLEY: Will you spell you last name, sir? [LR155]

ERIC NELSON: N-e-l-s-o-n, I'm sorry. [LR155]

SENATOR HADLEY: Okay. [LR155]

ERIC NELSON: (Exhibit 24) At Voices for Children, our main concern is the quality of life that we, as a state, provide for children today and in the future. In general, Nebraska is a good state to be a kid. In fact, the National KIDS COUNT Data Center ranks Nebraska the eighth best state in the nation overall to be a kid. However, not all our kids share in the good life. Over the past few years, children in the child welfare system have suffered from an ill-planned attempt to save money in caring for vulnerable children. Our child poverty rate has continually increased over the past decade to almost one in five Nebraska kids, and the numbers are even more troubling for children of color. Nearly two out of three third-graders--64 percent--aren't reading at grade level, which is often identified as an early indicator of ongoing academic problems. As someone who works in our public education system, I see the increasing needs of our children every day and

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the missed opportunities when we fail to adequately invest in our state's most important natural resource, our kids. We can, and should, do a better job of ensuring that all our state's kids have the best possible opportunity to succeed. Over the past few years, policies have already been put in place that compromise our ability to invest in children. The passage of LB84 in 2011 allocated some of the revenue previously available for education and other children's services to fund roads; and LB970, in 2012, cut income taxes and reduced our overall state revenue. To that end, I urge the committee not to make further cuts to income taxes that would impede our ability to make collective investments in kids. Rather than focusing on income tax, we would urge the committee to look at decreasing the cost of property taxes, especially for lower- and middle-income renters and homeowners. We also urge the committee to ensure that any cuts to property taxes do not compromise our ability to invest in education. Increasing state aid to schools can help school districts rely less on property taxes while ensuring a quality education is available to all of Nebraska's kids. We hope the committee will maintain the current income tax structure and focus on reducing property taxes in ways that don't decrease our commitment to public education. We believe that these are the best options to help ensure that we continue working toward becoming a state where all of our kids have access to the good life. Thank you. [LR155]

SENATOR HADLEY: Thank you. Any questions for Mr. Nelson? Seeing none, thank you. Next. [LR155]

ROGER REA: (Exhibit 25) Good afternoon, Senator Hadley and members of the committee. For the record, I am Roger Rea, spelled R-e-a, and I live in Omaha. And I'm also the president of Nebraska State Education Association, retired. I'm here today to deliver testimony in favor of removing the Nebraska state income tax from the Social Security benefits. As I'm sure that you are aware, Nebraska is one of just five states that taxes Social Security benefits to the fullest extent allowed by federal law. Nebraska tax policy is seldom changed in any major way so the work you are doing here is going to be historic. You'll be able to rid the tax law of inequities and the inconsistent ways that

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taxes are calculated and create a tax system that will be viewed as fair and even-handed. I urge the committee to consider fairness in the tax system as you make your recommendations for legislation in 2014. The primary issue of fairness to retirees is the way that their Social Security benefits are taxed compared to the way that railroad retirement benefits are taxed. I worked for a railroad while I attended college, but did not stay long enough to be able to draw a railroad retirement benefit. When I started collecting Social Security, I asked about the years I worked for the railroad to see if I could get a refund of my contributions to the railroad retirement plan. I was told that, although I did not have enough work credits to get a railroad retirement benefit, that the salaries I earned while working for the railroad as well as the quarterly credits I earned while working for the railroad had been folded into the Social Security system. My Social Security benefit would, therefore, include the work credits and wages that I received when I worked for the railroad. That sounded pretty good to me at the time I got that news. Then I learned that Nebraska tax policy, specifically, allows railroad tier 1 and tier 2 benefits to be subtracted from the adjusted gross income for the tax filer--it's often called a below the line subtraction--effectively sheltering all railroad retirement income from state income tax. I ask you one simple question. Why is railroad retirement income treated more favorably than Social Security retirement income? After all, railroad retirement income and Social Security income, both are income replacement benefits for retirees, both come from the federal government, and both have the same goal: to keep our elderly and disabled citizens out of poverty. I find it ironic that these two similar income sources were treated so differently by Nebraska tax policy. I cannot find any justification for that difference. If a worker has enough work credits to qualify for both a railroad retirement benefit and a Social Security benefit, he or she can collect both benefits. For those individuals, the portion of their retirement income that comes from railroad retirement is tax exempt. The portion that comes from Social security, is not. That kind of inherent unfairness is simple to correct. Just stop taxing Social Security benefits. To paraphrase a current TV commercial, it's not complicated. Just stop taxing Social Security. Railroad retirees and Social Security retirees should enjoy the same treatment of their retirement income regarding state income tax. I know that you will

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need to find a replacement income for the income that the state has unjustly taken from Social Security recipients. But when you start from scratch to make a new tax system, you can easily do that. The primary goal of a tax system should be fairness for all citizens. Again, it's not complicated. Develop a tax policy that treats the two forms of federal social income replacement--namely, railroad retirement and Social Security--the same. Change the law to exempt all Social Security income from state income tax, the same way the law treats all railroad retirement income from state income tax. Provide a below the line subtraction for both incomes. It's not complicated to do what's right. Thank you for the opportunity to testify and I'm glad to respond to any questions.

[LR155]

SENATOR HADLEY: Questions for Mr. Rea? Seeing none, thank you. Next. [LR155]

JOHN JENSEN: Good afternoon. I'm John Jensen, J-e-n-s-e-n, and I'm from Omaha. For many, many years, Nebraska and many other states tied their state tax bill to the people's federal tax liability. In 1984, President Reagan and Congress agreed to a series of proposals and to save Social Security. What they did was they began to tax a portion of Social Security, 50 percent at that time, based on what your gross income was. Not a penny of that tax went into the general fund of the federal government. It went into creating what is now called the Social Security Trust Fund. It was to help senior citizens. A few years later, in the early '90s, that tax was changed again. And so it was now up to 85 percent of your Social Security income was federally taxed, again based upon what your gross income was. Again, 100 percent of that money went into either the Social Security Trust Fund or the newly created Medicare Trust Fund. None of it went into the General Fund. So how did most states react during this time? Most states that calculated their state income tax as a percentage of federal income tax owed, decoupled from Social Security income. They did not count the Social Security income as part of it. Some states did not decouple. And they took what, in effect, was a windfall increase in their taxes. This was in 1984, and again in the early in the 1990s. This continues to increase as incomes increase. Some...two of the states that took the

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windfall are Missouri--which now has seen the light and no longer taxes Social Security at all--and the other one, our neighboring state of Iowa, and beginning January 1, 2014, just two and a half months off, they will no longer tax any of the Social Security income. What does that mean? I live in northwest Omaha. I could move just a few miles east and save, between myself and my wife on our joint bill, almost \$2,000 starting January 1. And I could be in a nice place. And thousands of other Omahans, like me, and Falls "Citians" who are senior citizens, they could also do this, they're going to be looking at that because it could save significant funds. How long will it take before real estate agents in Iowa, apartment complexes in Iowa, assisted living facilities in Iowa, chambers of commerce in Iowa, figure out that this is something they should market so they could bring senior citizens from Nebraska over to Iowa. That would help their bottom line and would hurt ours. In my case, the state of Nebraska would not only lose the almost \$2,000 in income tax, they would also lose my spending money at Bag'n Save and Hy-Vee and the auto dealers and stuff like that because I'd be spending my money in Iowa. [LR155]

SENATOR HADLEY: You have one minute left. [LR155]

JOHN JENSEN: Thank you. I share your concern. When I listened to you in July when you said you wanted taxes not to be out of balance compared with other states, I think that's a worthy goal. Don't have outliers. Well, I'm here to tell you, in the case of Social Security taxation, we are an outlier. We're an extreme outlier. We're one of five states that tax it fully. And I believe that should change. With that, I thank you for your service. And it's been the end of a long day, I know you're tired. I'm looking at the water you're drinking and it looks awfully good. [LR155]

SENATOR HADLEY: Well, there's nothing in the water (inaudible). Thank you. Next. [LR155]

GEORGE KUBAT: My name is George Kubat, K-u-b-a-t, I'm a lifelong Nebraskan, an

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Omaha resident, owner of Phillips Manufacturing Company located across the street, based here in south Omaha. I want to thank all of you on the committee for the service that you do to us, for the state in total, and a special thank you to those of you who are members of the Revenue Committee for not moving the bill forward earlier this year and giving us this opportunity to really look at tax modernization. And the only statement I'm going to make today, certainly we all would like to pay less tax. Several years ago, I served on the Nebraska Economic Forecasting Board. And the way I see the best chances in our tax modernization is find that solution that retains the citizens that we have in the state of Nebraska, retains the businesses that we have in the state of Nebraska, and offers great opportunity to bring other people who want to live in the state of Nebraska to the state of Nebraska and to bring additional businesses to the state of Nebraska. We need to broaden the tax base so that we have more people who earn more money, spend more money, and more businesses that move into the state so that we keep growing our economy. And that should be the end game in the tax modernization. It's not how much less we pay, how much the rates go down, or what structure will permit us to grow our economy, retain our citizens, retain businesses, attract new citizens, attract new businesses. Thank you. [LR155]

SENATOR HADLEY: Thank you, George. Just so everybody knows, we have a number left. We will stay here until we get them done because there's four ways to become a dictator: be a captain of a ship; take over a country; be a professor; or be chair of a committee. [LR155]

JOHN KNAPP: (Exhibit 26) My name is John Knapp, J-o-h-n K-n-a-p-p. I'm here to represent Sarpy County Farm Bureau, I'm the president. I would just like to say, I support most of the testimony that I've heard from the other farmers today from the Farm Bureau...Nebraska Farm Bureau. I would like to add, as an example of what's affecting me...I'm a small farmer in Sarpy County and the District 46, Platteview School District. In 2010, my real estate... [LR155]

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SENATOR HADLEY: Put the cheaters on, huh? [LR155]

JOHN KNAPP: Yes, put the cheaters on. My 2010 real estate taxes were \$9,800...roughly \$9,800. In 2012, they jumped to \$13,991. And our valuation went up 20 percent this year for next year. And since we're...farmland in Sarpy County only represents about 3 percent of the valuation, there's very little chance that the mill levy is going to be adjusted to give me any relief. And some of the rural counties where they have less...where the ag valuations are 50 percent, 60 percent, usually when their valuations go up, they do get a little bit of a mill levy relief. The Legislature chose to throw our county into the Learning Community. My school district loses about \$1 million a year based on what would normally go to the (inaudible) school district that is now transported to the Learning (inaudible) district. And the school systems talked about, or some of the other government entities here today, talk about the level of...the stability of a property tax base. Last year, corn was around \$7.50, \$7.60. This year it's running \$4.40. I'm taking about a 40 percent reduction in my income. And I've just got to live with it. And this property tax has to be paid whether, if I...and I'm a dryland farmer, so I'm at the mercy of going to church. And the...so I may have, you know, a zero income if we have a really bad year. And I just don't think that's equitable. The other states around us use, like, a rolling average based on income. The...our assessor...as the members of the Revenue Committee, I don't if you remember me, because I've testified about the problem with our assessor on valuations on our home site or farm site. And just to kind of update members that are aware of the problem we've had, this year the board of equalization did go along with...since 2009, our assessor has been putting the value on the farm house, it's roughly \$60,000 which he compares to an acreage. But I can't...an acreage, you can sell. I can't sell the acre of ground under my house. Well, the referee, since 2009, has been disagreeing with the assessor. But the board of equalization has chose to go along with it. Well, this year, our board of equalization went along with the referee's recommendation of putting the value under the farm house at the value of the farmland. Farmland in Sarpy County is going for roughly \$7,000 an acre. And so that should help on that part, that portion of it. And I have a TERC protest

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that I still haven't heard from since...it's a 2010 or '11 TERC protest that I haven't had a hearing on yet. But a neighbor, about two months ago, got his from 2010. And the chairman of the TERC board went along with his protest saying that the assessor's model was wrong. So maybe we're getting a little relief in that sense. Farmers are also concerned with the sales tax exemption. And (inaudible), if you would remove that and don't do something about the property tax relief, I think it would be devastating for farmers. Thank you for your time. [LR155]

SENATOR HADLEY: Thank you. Appreciate it, Mr. Knapp. Questions? Seeing none, next. [LR155]

AL MUMM: (Exhibit 27) Good afternoon, Senator Hadley and members of the committee. My name is Al Mumm, M-u-m-m, president of the Nebraska Alliance for Retired Americans. You've heard much testimony on Nebraska taxation and I'm sure you've heard many things more than once. I would just like to touch base on a few things regarding the taxation of retirees in Nebraska, particularly those on Social Security. When the federal government decided to tax a portion of Social Security, it was to instill a form of means test. Unfortunately, they did not index it for inflation which resulted in taxing retirees at a relatively low rate of income, \$25,000 a year. The tax from this at the federal level goes into the Social Security Trust Fund. It was never meant to be a source of income for states' general funds. It is also a tax that is applied only to seniors and was never voted on at the state level by the Legislature or the public. Perhaps that is why the vast majority of states--45--do not tax Social Security. Often, I've heard from members of the Legislature the statement that doing away with taxing Social Security would cost the state too much. As if any tax, regardless of how unfair, is justifiable just because of the revenue it brings in. I'm sure we can all think of things to tax that would not be fair but would bring in huge sums of money. That does not make those forms of taxation right. For instance, if we decided to make a special tax on all men with white beards, I'm sure we'd bring in immense amounts of money, but it wouldn't be right. [LR155]

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SENATOR HADLEY: As long as it's not white hair. [LR155]

AL MUMM: Taxing Social Security at the state level is simply unfair and wrong. Nebraska treats its retirees poorly in this regard. As has been pointed out by others, when retirees leave the state, they take their income and Medicare benefits with them. This money is lost to the Nebraska economy forever. It has also been pointed out that retaining and attracting retirees brings in more to the state's economy than it costs in loss of revenue from taxation of Social Security. A large number of Nebraskans receive Social Security. However, most Social Security recipients' amount is relatively modest. But coupled with other income and the \$25,000 threshold, they end up getting Social Security taxed. I appeal to this committee to do what is right for retirees. Stop taxing Social Security in Nebraska, not only because it is the fair thing to do, but because it makes sense financially as well. Thank you. [LR155]

SENATOR HADLEY: Thank you, Mr. Mumm. Questions? Seeing none, thank you, Mr. Mumm. Next. [LR155]

SENATOR HARR: Can I just make one comment? [LR155]

SENATOR HADLEY: Yes. [LR155]

SENATOR HARR: My seventh-grade teacher, who's in the room, taught me that Peter the Great taxed beards to modernize the tax system in Russia. So maybe that's a great idea. [LR155]

SENATOR HADLEY I'm amazed that you can remember something from the seventh grade. Next. [LR155]

JOHN DICKERSON (Exhibit 28) I'm glad I don't have a moustache anymore. John

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Dickerson, D-i-c-k-e-r-s-o-n. I'm associate broker with Investors Realty but I came here today as president of the Nebraska Association of Commercial Property Owners. And you're getting a handout and I won't cover the whole handout. I'll direct you to the second page. I'm here to talk to you about a totally different thing than you've heard so far. In managed (inaudible) and in commercial real estate, if we build a new building, if you have sales taxes on construction or even remodeling or expanding existing property, that could have a great impact on economic development. My example is, if you build a 10,000 square-foot building that costs \$150 a square foot, that's \$1.5 million. A 7 percent tax on that would be \$105,000. That's a big number. If you expand that to a 50,000 square-foot building, that's five times that so that's over a half million dollars for the sales tax on new construction. That's going to make developers take a second look or have second thoughts about development. The second, number five, that example (inaudible) is about taxing operating expenses, such as lawn mowing and landscaping, trash removal, janitorial services, and those kinds of things. There are two kinds of leases, basically. One type of lease, the owner is able to charge that...to charge the tenant for all the operating costs such as those I just mentioned. So there's no impact on the value of the property. However, there are some properties that do not pass operating expenses on to tenants so it's absorbed on the operating costs of the property. It hits the bottom line. And the example here is a 36,000 square-foot building, about \$9,000 worth of tax on these services. That would negatively impact the value of the property by \$112,000. Another example would be an apartment complex. The number is a 174-unit apartment property. You would spend approximately \$107,000 on expenses. They would not be able to pass that back to tenants. They would have to take up to a year as the leases roll over to raise rental rates to make up that difference. So that could also impact the value of that property by \$100,000. If you have any questions, (inaudible). [LR155]

SENATOR HADLEY: Any questions? Thank you. We appreciate your...we appreciate all of you waiting till the end. That's...the best is always last, you can take that to the bank. We'll tax it though, probably, if we get a chance. [LR155]

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DAVID DROZD: (Exhibits 29, 30) Good afternoon. My name is David Drozd, that's D-r-o-z-d. I'm the research coordinator for the Center for Public Affairs Research at the University of Nebraska-Omaha and I'm here today to provide the latest information on Nebraska demographics and migration patterns so that the discussion regarding changes in tax policy can be fully informed on these topics. Any focus on demographics starts with the baby boom. As you likely know, the baby boom refers to an extended period of increased births beginning in 1946 and continuing almost 20 years until 1964. In 2011 the leading edge of the baby boom began turning age 65. So for the next 20 years or so, a relatively high number of individuals will reach this age milestone. The obvious implication is that a relatively high number of individuals will also, then, be able to draw retirement benefits from programs such as Social Security. Slide 2 on the handout illustrates the structure of Nebraska's population from young to old moving left to right; and the baby boomers, shown in red, comprise the largest segment of the state's population. Nebraska is home to about 452,000 baby boomers aged 47 to 65 in 2012, representing a quarter of the state's population, as well as an additional nearly 240,000 Nebraskans age 66 and older. We also know that as Nebraskans approach and reach retirement age, they tend to leave the state. Slide 3 shows that net migration rates over the last two decades turn negative for those aged 60 to 64, illustrating that out-migration. The out-migration rate bottoms or is most negative for those age 65 to 69 and a net out-migration of Nebraskans age 70 to 74 also occurred. Thus, if we juxtapose the information from those two slides, Nebraska will have the largest segment of its population age into the years at which they are apt to move away from the state, creating a potential for a large net out-migration of our baby boomers, not only the next few years, but for the subsequent 10 to 15 years as well. What's happened lately? Slide 4 shows migration for those age 55 and older annually since 2007. Fifty-five is a key age as that is when labor force participation starts to notably decline. And those not in the labor force are not as tied to remaining in Nebraska. Prior to the recession, Nebraska was losing about 700 people age 55 and older per year in 2007 and 2008. Migration levels improved during the recession but that proved temporary as the latest

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data for 2011 and 2012 show expanded out-migrations of around 2,400 per year. Extrapolating that information, Nebraska would lose about 25,000 people during the decade who are near, at, or in retirement age, and quite possibly many more as the larger pool of baby boomers age into the groups at which higher net out-migration occurs. The out-migration of this segment of the population leads Nebraska to perform relatively poorly from a population growth standpoint. Nebraska ranked only as the 30th best state in population change during the 2000s. Notably, we ranked in the bottom ten states for most older five-year age groups. And for those specifically aged 65 to 69, Nebraska's growth rate was only half the U.S. average and ranked just 48th among the states. Other recent data show an impact from changing tax policy. As you likely know, Missouri and Iowa are both phasing out their state taxation on Social Security benefits. Since Social Security can begin being taken at age 62, slide 5 shows that these states had an out-migration of the policy relevant 60 and older population in 2011, but that each of these states improved substantially in 2012. Nebraska on the other hand, had a sizeable worsening in the migration of those 60 and older from 2011 to 2012. While many factors can influence such figures, it appears that recent tax policy changes have had a positive effect on migration in these neighboring states. The literature on this topic has many examples of this correlation and how people "vote with their feet" and move to a location that is within their best financial self-interest. Why is all this important? For one, population totals drive political power. The decennial census is taken to apportion the House of Representatives. Nebraska's current three Representatives could well shrink to two after the 2020 census. Policies we put in place now or the next few years will impact the likelihood of people moving to or from our state. As I've stated publicly previously, if people near or at retirement age move out of the state during this coming decade as they have in the past, it will likely take a Nebraska Congressional seat with them. Additionally, it goes without saying, when residents move out of the state, the tax base is hurt as they take their income and spending and associated income and sales taxes generated with them. Indeed, given Nebraska's older net out-migration, the state ranks next to last in the percentage of households that receive retirement income, like pensions. Finally, I urge the committee to take action on this topic. We cannot stand idly

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by with the status quo while other states are addressing retiree friendliness. If our tax structure does not remain competitive, it is my professional view that Nebraska's older out-migration will worsen and that the state will likely lose Congressional representation in the 2020 census. I would be happy to answer your questions. [LR155]

SENATOR HADLEY: Questions? I have one. We had a testimony in the last session and it quoted a Journal of Taxation article--I don't know if you're familiar with it--where two researchers found that state income tax was not a factor in migration of the elderly between states. Have you read that article? [LR155]

DAVID DROZD: I have not seen that particular... [LR155]

SENATOR HADLEY: Would you take a look at that article and maybe give us your...later? [LR155]

DAVID DROZD: Sure. [LR155]

SENATOR HADLEY: Because the Journal of Taxation, I think, is a pretty good... [LR155]

DAVID DROZD: (Inaudible). [LR155]

SENATOR HADLEY: And the testimony to us was that they found that taxation was not a causal factor. [LR155]

DAVID DROZD: Yeah, causal is always hard to prove. Correlation is where the force is seen. And we talked before about the weather and, you know, how we can not change the weather. But perhaps we can change tax policies (inaudible). [LR155]

SENATOR HADLEY: The second question, are you familiar with the...I think it's called

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the dependency ratio? [LR155]

DAVID DROZD: Yes. [LR155]

SENATOR HADLEY: We...at the hearing or the meeting we had a couple of weeks ago, it said that the Nebraska, I believe, over 65 will grow from 250,000 in 2012 to 467,000 in 2030. And basically, the population will remain very flat. So that means we're going to have more people that are being dependent on the income of the people who are working. [LR155]

DAVID DROZD: (Inaudible). We just released population projections at our last conference in August. And yes, it's about 250,000 now up to, I think, around 430,000 in (inaudible)... [LR155]

SENATOR HADLEY: Is that scary that... [LR155]

DAVID DROZD: The overall population will grow. But, you know, it is aging into those key age groups and, therefore, the dependency ratios also change because children are growing as boomers move out of, like, 55 to 64 right now, that age dependency ratio will worsen. [LR155]

SENATOR HADLEY: Is it a fair statement to say as the dependency ratio goes up with the fewer people supporting, that your tax situation is going to have to change? [LR155]

DAVID DROZD: That is the concern, you know, not only in Nebraska but nationwide regarding Social Security and how many workers are supporting those (inaudible). [LR155]

SENATOR HADLEY: So decisions we make on retirement is not only this year or next year. It's what we're going to saddle the citizens of Nebraska, 16 or 18 years from now,

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with because your demographer... [LR155]

DAVID DROZD: Will continue to have those same effects. And, you know, it will be multiplied as more and more people hit this age 65 milestone. [LR155]

SENATOR HADLEY: Thank you. Senator Pirsch. [LR155]

SENATOR PIRSCH: Thanks for your testimony here today. Did want to ask you a question with respect to, I think this is page 3 of your presentation which illustrates Nebraska loses residents at typical retirement ages. [LR155]

DAVID DROZD: Yes. [LR155]

SENATOR PIRSCH: This is born of the...based on the 1990 and 2000 study, right? [LR155]

DAVID DROZD: Yes. [LR155]

SENATOR PIRSCH: So what it shows to me is right around typical retirement age, then there's a, seems to me, a migration out. Right? At some point, when they reach maybe ten years later or so, then a migration in... [LR155]

DAVID DROZD: Yes. [LR155]

SENATOR PIRSCH: ...75...age 75 and 85. I'm assuming there would be fewer individuals that are involved there. [LR155]

DAVID DROZD: Exactly. So those rates are a little bit higher than the migration rate because the pool is smaller. And a lot of what we do see, is people coming back to Nebraska after they had left the state either for family reasons or for medical care and

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those type of aspects. So they miss their grandchildren and things of that nature.
[LR155]

SENATOR PIRSCH: And that was in the '90s and 2000s. Is that...I go to your next page, page 4, it says "net domestic migration of Nebraskans age 55 and older." So it's a different...you know, it's 55 and all there, all combined together. And it does show that, you know, the trend seems to be that 55 and older, that they're moving out in higher numbers. Is that same trend that was on the previous page still here but it's just being countered by the 55-year-olds moving out in much higher numbers than (inaudible)...
[LR155]

DAVID DROZD: The two slides are coming from different sources. And on the second one you mentioned--which is on page 4--the age 75 and older--this is coming from the Census Bureau--and as we moved to smaller and smaller age groups, this survey-based data becomes a little bit less accurate. So, for one, that's why we pooled them all together. But secondly, we do see a small net migration of those 75 and older (inaudible). [LR155]

SENATOR PIRSCH: Do you have recommendations to this committee about how to understand the reasons, the rationale why these migratory trends are going? You know, there's certain theories, right? And one may be that income tax. I know you were invited to speak to that. Have you become familiar in your research with any, you know, articles on such theories that, you know, bear mentioning, other than the income tax? [LR155]

DAVID DROZD: There are personal preferences that drive migration. And some people will move out of the state, regardless of tax policy, simply because of weather. Other people are more fiscally minded and they're looking at things--and I'll refer to Mr. Jensen's testimony--on just what optimizes their financial situations. So as they look at those individual aspects, each person will have those preferences. And some cannot be changed, like weather, and others might be able to have a policy-related impact. So I

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would suggest that this newest information is indicating that Iowa and Missouri are seeing an impact in their states and that Nebraska would likely do something similar because we are structured so similarly for people's migration decisions. [LR155]

SENATOR HADLEY: Senator Schumacher. [LR155]

SENATOR SCHUMACHER: Thank you, Senator Hadley. And thank you for your testimony. These charts are a little bit interesting. The baby boomers and older generations, it looks like they comprise about 37 percent of the population. And when I take 1.8 million and multiply it times 37 percent of the population, I get about 675,000 people in that category. We're concerned, apparently, about 2,300 people, which amounts to .3 percent of the population. Do you think it's good to modify tax policy over what might be an impact on .3 percent of the population? [LR155]

DAVID DROZD: The numbers presented there, 2,400, are net so that is Nebraskans out-migrating less those that are coming here. So the mover base is broader than what you mentioned, although still small. So the other item that, of course, we mentioned in our testimony is that, it's going to be a bigger pool going into the ages at which past trends have shown people are most apt to leave the state. So if the committee deems it worthy, now is the time. I mean, because what has happened on slide 3, like Senator Pirsch noted, is that we've seen the deterioration. And that's what I worry about when we first testified on Senator Nordquist's bill two years ago. But that, 2010, those were the good days for Nebraska from a migration standpoint. Now, we're reverting to our typical patterns; and extrapolating that forward over the next ten years, that's where we see the great danger in potentially losing Congressional representation. [LR155]

SENATOR SCHUMACHER: Do you have any countervailing data? I mean, we're told maybe taxes will push some of these people out of the state. But then we're hearing testimony that's saying, whoops, the young people, they're going to leave unless you cut their taxes and they'll hightail it out of here. Well, to the extent we give a break on

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one end of the age spectrum and we raise it on the other end, do you have any data to indicate how the countervailing...or will the young people flee because they have to pay more taxes to take care of the old people who we cut the... [LR155]

DAVID DROZD: In my professional view, the younger generation will have taxation as a smaller determinant of their location decision. They're looking for entertainment, jobs, you know, family aspects of maybe where their spouse is from versus where they're from, and things of that nature. Retirees are looking more for amenities and often, like, you know, as they start to go out from a working income to a retirement income, those types of things are a little bit more dollar dependent and they're a little more in tune with those specific changes. So I think that we need to do whatever we can to try to keep our people, because young person out-migration is a big problem because they're not only taking (inaudible) future families with them. But I think the 65 and older will be more in tune to the changes that the policymakers decide upon. [LR155]

SENATOR SCHUMACHER: Thank you. [LR155]

SENATOR HADLEY: Just one more quick point and then we'll let you go, Dave. I noticed the 75 to 79, 80 to 84, and 85-plus show a net inflow. And under Medicaid, one of our big expenses is nursing home care for people who have run out of money. Does this bode ill for the state of Nebraska when these numbers in the older age grow like you're saying they're going to grow? [LR155]

DAVID DROZD: As far as people coming back? [LR155]

SENATOR HADLEY: As people...as far as people coming back and, eventually, availing themselves of Medicaid for nursing home. [LR155]

DAVID DROZD: Yeah. Again, those are really small pools of people, even though the rate is around 1 percent, roughly. You know, 75 to 79 pretty much (inaudible). So it is an

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issue where spending does occur. And other research that we've done does show that poverty does increase in those older age groups as they continue to (inaudible).

[LR155]

SENATOR HADLEY: Okay. [LR155]

DAVID DROZD: So it will be an issue. [LR155]

SENATOR HADLEY: Thank you. [LR155]

DAVID DROZD: You bet. [LR155]

SENATOR HADLEY: Thank you. Appreciate the data. It's always great to look at it. Next. [LR155]

DAVID DROZD: There's plenty of it. [LR155]

MICK MINES: Chairman Hadley, members of the committee, for the record, my name is Mick Mines, M-i-c-k M-i-n-e-s. I'm a registered lobbyist, today representing the Nebraska Grocery Industry Association. As you all know, occupation taxes are opposed by municipalities on an occupation or a business activity. In 2012, the city of Omaha stretched the definition of business activity to businesses that sell tobacco products. As an association, we are concerned about occupation taxes. We're not opposed to occupation taxes. We understand municipalities need this tool as they develop and grow. But we would ask the committee to consider, as we go forward with tax policy, the occupation taxes be...maybe the definitions be tightened a bit. Particularly, we would support occupation taxes being voted on by the public rather than simply by the city council. We'd also support limiting the amount of occupation tax, dollar amount, as well as a sunset on the occupation tax. Finally, we'd also support an occupation tax being project specific, rather than be a part of the General Fund basis. So we just ask to be

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part of the discussion and hope you will consider strengthening and providing more fairness in occupation tax going forward. I'd entertain any questions. [LR155]

SENATOR HADLEY: Senator Hansen. [LR155]

SENATOR HANSEN: I have one. Thank you, former Senator Mines. Did you also represent the Corn Growers? [LR155]

MICK MINES: I do. [LR155]

SENATOR HANSEN: Are you familiar with the occupation tax that they have on the corn production too? [LR155]

MICK MINES: I am. [LR155]

SENATOR HANSEN: So do we need to redefine the term "occupation tax"? An occupation tax out west looks like a real estate tax, an increase in real estate tax. What you're talking about for the cities and the grocers, that sounds like an increase in sales tax. [LR155]

MICK MINES: Sales tax. [LR155]

SENATOR HANSEN: How do we change that? How do we redefine occupation tax? [LR155]

MICK MINES: Senator, I believe that any business, whether it's a grocer or a farmer, they look for predictability. And through a definition, I think we can get there. We've got two different ideas here. And you're exactly right, they appear to be different things but, in fact, they're occupation taxes. And I believe that through this committee, we can come up with a fair and reasonable, predictable solution, just by changing definition or

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modifying definition. You're right. [LR155]

SENATOR HANSEN: Appreciate it. [LR155]

MICK MINES: Thank you. [LR155]

SENATOR HADLEY: Any other questions for Mr. Mines, Senator Mines? [LR155]

MICK MINES: Thank you. [LR155]

SENATOR HADLEY: Thank you. Next. [LR155]

MARY SPURGEON: (Exhibit 31) My name is Mary, M-a-r-y, Spurgeon, S-p-u-r-g-e-o-n. And I'm testifying on behalf of the Bellevue Education Association-Retired members, collectively known as the BEARS. We support exempting Social Security and other pension incomes, or a portion thereof, from Nebraska state income taxes for the reasons that you have already heard. Nebraska is one of only five states that do not provide such exemptions, except the employees of Union Pacific Railroad, as was pointed out. Nebraska, alone, taxes Social Security to the full extent allowed by federal law, making it attractive to move across the state line in any direction. Exemptions would encourage retirees to stay in Nebraska with their expendable and investment dollars, their property tax, sales tax, and other income tax payments, and their cultural contributions to their local communities and all of Nebraska. Additionally, as was just noted, if Nebraska wants to continue to have three Representatives to Congress, we cannot continue to lose population in greater Nebraska's 3rd District. As mentioned earlier, retired citizens have a direct, steady, and ongoing economic impact on their communities. Let us illustrate with an analysis of the impact of retirees from the Nebraska school, judges, Highway Patrol, and Omaha school pension plans in one county. The economic impact of BEARS in Sarpy County: A small caution, the following estimate of the economic impact of the BEARS and other school retirees in Sarpy

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County is low for two reasons. We cannot identify all of the retirees and our estimate of their retirement income is conservative. Data from 2012 reveals that the monthly checks coming into Sarpy County from the Nebraska school, judges, Highway Patrol, and Omaha school pension plans totaled \$2,611,759 for 1,378 retirees. The pension income is an annual payroll in Sarpy County of over \$31.3 million and would be larger if more Nebraska retirees retired in Nebraska. Many or most of the BEARS and other retirees in this number also receive Social Security and income from savings. Many have spouses with retirement incomes. We are certain that a more detailed study would reveal that the economic impact of these retirees is much, much larger than the \$31.3 million. Additionally, many BEARS and other retirees own their own homes and pay real estate taxes. They pay taxes on their motor vehicles, taxes on their purchases, donate money to local churches and community organizations. And currently, of course, pay incomes taxes. Their direct economic impact is very, very substantial. The BEARS also contribute their time, talents, and treasure to their Bellevue, Offutt, and Omaha metro community. A survey of BEARS revealed a number of cultural contributions to the public schools, to the city of Bellevue, to nature organizations, to museums, and to a plethora of various organizations which...and churches, as well, which I'll let you just read through. As this highlights, and as I'm sure you are aware, (inaudible), without the contributions of able, retired individuals, a great many local, city, and state organizations would not have the people power needed to carry out their mission. Like the labor given by stay-at-home parents--and many retirees are caregivers for grandchildren or other family members--these contributions are not counted as part of the gross domestic product. But they, too, have an economic as well as a quality of life impact. We don't know how many members of our association, BEARS, and other retirees have left Nebraska to live in one of the many states that exempts Social Security and pension income from state taxes. We know that many have left. For all of the above reasons, we support legislation to keep retirees in Nebraska with their civic, economic, and cultural contributions to our state. Having said that... [LR155]

SENATOR HADLEY: Getting close. [LR155]

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MARY SPURGEON: Yeah, we are. We are also committed by our personal passion and through our bylaws to support public education; Nebraska Constitution requires that. And much wisdom was shown in making it a certainty that a free, quality education is delivered to all Nebraska children through the common schools. When companies are considering... [LR155]

SENATOR HADLEY: I think we're getting...will you please get to an end, please? [LR155]

MARY SPURGEON: ...where to located or relocate, it is the training and quality of the work force that is the most important. The CEO of GE, Jeffrey Immelt, emphasized this. We are...we know that you have a huge decision before you and the Education Committee and you must attend to the needs of all citizens in the most healthy and fair way possible. We, as retired... [LR155]

SENATOR HADLEY: I'm sorry, but we have other people waiting and your time is up. I'm sorry. [LR155]

MARY SPURGEON: Okay. We urge you to look at... [LR155]

SENATOR HADLEY: Yes. The time is up. Next. [LR155]

PATRICK PTACEK: (Exhibit 32) Chairman Hadley, members of the committee, my name is Pat, P-a-t, Ptacek, P-t-a-c-e-k. I'm here today representing the Association of Nebraska Ethanol Producers. I'm going to be brief. My comments...I know that Loran Schmit, my associate and colleague, has kind of been this committee's groupie and has attended all three previous hearings. And...but I think that also sort of clarifies how concerned we are that any substantial tax changes could affect our industry. After all, through the Legislature's wisdom and through some incentives over the last 50 years,

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we beat out other corn producing states such as Missouri and Illinois to attract 24 plants in the state of Nebraska, making us the number two ethanol producer in the nation, producing over 2 billion gallons of ethanol a year, more than all the gasoline that's consumed in the state itself. The fact of the matter is, we produced high-paying jobs at the plants, anywhere from 40 to over 200 per plant. Out of those 24 plants, 21 are operational today. It's been a win-win-win situation for farmers in increasing, substantially, the price of their commodity, particularly corn and sorghum, that are feed sources to the ethanol plants in the state of Nebraska, it's provided. Forty percent to fifty percent of that comes back as high-quality feed which is sought after by the ranchers and feeding operations and adds value to their livestock. And it's also, as I said, had an incredible impact in steering this state through the Great Recession. If you will, it sort of started a rural renaissance, if you will, by not only stabilizing the rural economy and adding to the profitability of farming but, also, to those allied industries like Case IH, that make tractors and combines in excess of \$300,000 a year in our operation, seven days a week, 24 hours a day. So obviously, we're concerned about any substantial changes. We're very concerned, again, that the economic climate which brought those ethanol facilities to Nebraska, particularly the sales tax exemption that we covet on energy because we are an energy consuming industry, such as most heavy industry in the state of Nebraska. And I don't think that's one segment of the population that you really want to drive out of the state. I mean, we can all talk about service industry, but the fact is, manufacturing is still a bedrock part of this state's economy. And it really complements agriculture in a big way. What we see is the debate coming back around to property taxes, again, it's that age-old question and that concern about what we do to stabilize and make that base as fair as possible. And as I look at this committee and I look at how many of you won't be with us in a year or so because of term limits, I can't help imagine what it's going to be for another...in 15 or 20 years and another crop of legislators have to be hauled in and say, is our tax system fair or is it equitable? So I want to thank you for your hard work. And with that, I'll answer any questions you may have. [LR155]

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SENATOR HADLEY: Any questions? Thank you. [LR155]

PATRICK PTACEK: Thank you. [LR155]

SENATOR HADLEY: Next. [LR155]

JAMES ENRIGHT: Mr. Chairman and members of the committee, I'll be really brief here. I appreciate your patience. [LR155]

SENATOR HADLEY: Well, we appreciate your patience. [LR155]

JAMES ENRIGHT: James Enright, 3303 R, Omaha. [LR155]

SENATOR HADLEY: I'm sorry. Would you... [LR155]

JAMES ENRIGHT: James Enright, E-n-r-i-g-h-t, 3303 R Street, Omaha. Just to hit the highlights, I think, first of all, we are not competitive, as we've seen today from the testimony, with our surrounding states, with many other states, taxwise. Any tax reform I think should include lowering our total tax burden, number one. Number two, I strongly favor, such as the Farm Bureau testified--they had good testimony--of property tax relief. My main reason for saying that is, the property tax is too high. It's out of line with most states and it's regressive. It hurts...it falls more heavily as a percent of income on the poor as opposed to the middle class and the rich. It's regressive. I don't see anything fair about that at all. So that's basically what I believe. We're too heavily taxed, first place, to be competitive. We need property tax relief because it's a regressive tax. And to replace some of the revenue from the property tax with a sales tax, makes no sense to me because a sales tax is just as regressive, if not more so, than the property tax. So we need lower taxes, don't get me wrong. But if we have to have more revenue, get it from the progressive income tax. We need more progressivity, I think, in our state tax system, to offset some of the regressive nature of our property and sales taxes.

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Thank you very much. [LR155]

SENATOR HADLEY: Thank you. Next. [LR155]

NICOLE NUSS: (Exhibit 33) Good afternoon, Chairman Hadley and the committee members of the committee. I'm Major Nicole Nuss, N-u-s-s, and I'm representing the National Guard Association of Nebraska and the Enlisted Association of the Nebraska National Guard. And I'm here today to voice our support for the exclusion of military retirement from taxation. I provided more in-depth written testimony, so I'll just hit a few of the highlights. Nebraska National Guard's operational tempo has been significantly higher since 9/11, with most of our members having deployed at least once if not several times. In addition, we've provided vital domestic support, such as assisting in floods in 2010 and 2011 and with the wildfires in Nebraska and Colorado in 2012. This operational tempo impacts members, families, and employers. It also creates a highly skilled, trained, and disciplined work force though. Over 70 percent of our members have some level of postsecondary education, with many having bachelor's, master's degrees, and professional degrees. We risk losing these valuable and trained personnel when they retire as they can move to over 30 states, including all of our bordering states, and receive some financial benefit from doing so. We also have Offutt Air Force Base ten minutes away, with STRATCOM, alone, providing 4,000 jobs, 50 percent civilian and 50 percent military. These jobs require high level security clearances and technical training which military retirees already possess. A unique aspect of military retirement is that they tend to be much younger than civilian retirees, with the mean age of a military retiree being only 43 years old. This means that our retirees create a pool of educated, qualified workers that still have several years available in the work force. We believe it's important to keep those resources in the state of Nebraska. We can't compete with many other states in the year-round sunshine, beaches, or professional sports teams. But we can compete with them in taxation and financial benefits by excluding military retirement from taxation. Although (inaudible) tax, most retirees have families who pay income tax, sales tax, and property taxes, which will be lost if they

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move out of Nebraska. For these reasons, we ask the committee to consider tax exclusions for military retirement income. Thank you for this opportunity to testify. [LR155]

SENATOR HADLEY: Senator Hansen. [LR155]

SENATOR HANSEN: I have a question. Thank you for coming today. Have you or any of your colleagues thought about maybe having those benefits not taxed after age 65? And they would have to keep track of what those benefits were and they'd have to pay taxes on them while they're working. When they reach retirement age and then they'd continue to get their retirement benefits, I assume. So, I mean, that's an idea, 65 and older get those benefits exempted. [LR155]

NICOLE NUSS: Depending on the type of military retirement that they have, some of them won't begin to collect until they're age 60 or 65. (Inaudible) a traditional military retirement for the National Guard. [LR155]

SENATOR HANSEN: Okay. [LR155]

SENATOR HADLEY: Okay. Major, thank you. Next. [LR155]

ANDREW SULLIVAN: (Exhibit 34) My name is Andrew Sullivan, S-u-l-l-i-v-a-n, of Omaha, Nebraska. I'm going to keep it short and simple because I appreciate you taking all your time. I made a point of listening to all the testimony so you could get a different perspective. And I'm going to keep...I study economics on the ground, on what's happening in our cities, what's happening in new technology. I work in a paperless environment. And when I heard...there's two tax issues I'm concerned about, the income tax and the sales tax because they both contribute to a more nomadic culture. You have to ask, when you're using the income tax, who are you trying to get to the state? Do you want ten janitors coming in or do you want three doctors coming in?

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My father came from Missouri to Nebraska when you had no income tax, no sales tax, no bonded debt. That's what the sticker is on the front of the handout. That's what you want to bring in. You bring in the upper-middle-class people to Nebraska, they buy the \$250,000 homes, they pay the \$5,000 property tax, they put their kids into the school systems and the universities. That's what you want to bring. You don't want to create a tax situation where you're catering to the poor and you're just expanding the roll of the poor while all your human assets, with knowledge, intelligence, and talents disappear. As for the sales tax, there's been much talk about this. And I appreciate what Senator Mello said to it and what others have said to it. Our time is digitalized. This cell phone I have, my Smartphone here, is both a camera, a telephone, a book shelf, a record player. I don't need anything to...I don't need a U-Haul to carry all that stuff anymore. That's the reality. We have a nomadic culture where people can literally couch-surf without ever buying property. So we have to look at the things that they do buy. They don't need to buy a dining room table. They'll buy specialty candies, specialty meats, specialty pastries and cheeses. You're thinking of bags of potatoes. A bag of potatoes is cheaper than a pound of dirt in this city. In reality, you tax the poor 7 percent for electricity, water, and gas, utilities, phones. We tax on toilet paper, diapers, detergent, tampons, 7 percent. But what are we not taxing? Lobster, king crab legs, Breyers Ice Cream, 24 cans of Coke. Bill Avery was right to push the tax on the (inaudible) and (inaudible) further. Those specialty stores...there are least 100 specialty stores in this city that are completely exempt from the sales tax. It's not right. And that's why I think you should expand in that direction because it will stop the nomadic culture and it will bring in tax revenue. It will feed our city. You can't do it with property tax. I don't need to buy a...if I'm a professional, I don't need to buy a \$250,000 house because I don't need a bookshelf anymore. I don't need a den with a big stereo. I don't need videos, (inaudible) video tapes. Taxing the Internet? Sounds like a good idea until you realize those revenues are really not there. You buy a Kindle, great, tax it. But you can get 100 books...(inaudible). I got a Kindle and I haven't bought a book in over two years. How many books do you read? Oh, at least 100, because there's so many free books out there. You have to tax what's actually in your economy. Now Senator Mello mentioned

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(inaudible). Well, I could just drive over from Council Bluffs. That's assuming you have a car and that's assuming it's a nice day and not in the middle of a snow storm. I guarantee you, I can go to, you know, Redbox, buy a CD, a video for \$1. It's so much easier just to (inaudible). That's the reality. [LR155]

SENATOR HADLEY: Thank you. [LR155]

ANDREW SULLIVAN: Thank you. [LR155]

SENATOR HADLEY: Thank you, Mr. Sullivan. Questions? Seeing none, thank you very much. [LR155]

ANDREW SULLIVAN: Thank you. [LR155]

SENATOR HADLEY: Anyone else? [LR155]

WILLIAM HAYFORD: (Exhibit 35) Good afternoon. My name is Bill Hayford and you spell that H-a-y-f-o-r-d. And I am recently retired and I worked for the Nebraska Department of Revenue for 39.5 years. I have appreciated all the comments I've heard today. I've been here since 1:30 and I was on the front lines of working with taxpayers, administrating the tax laws that you folks do establish in the state of Nebraska. And I've heard all the arguments, so. But what I'm here today to address is one issue that was touched upon earlier in the afternoon that I think really needs to be considered. And as a retiree, that is the inheritance tax in the state of Nebraska. For whatever reason, I guess this is not going to be a consideration of this committee, based on an earlier comment by the lady from Douglas County. I really believe it should be. I don't have a lot of studies and a staff of people to do studies for me with a lot of statistics. But I have been out over the Internet and many of the comments that have been made here--especially the gentleman from the University of Nebraska--in regard to what causes migration into and out of states by retirees, is right spot on. I'm a part of that

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baby-boomer generation. And among my peers I talk to, many of them, they do have a concern about the income taxes or the taxes on Social Security retirement income which have been addressed. But a study that I saw--and I have just one copy of it and I'll leave it here for the committee to consider--there was a study done in 2006 by the state of Wisconsin. It's out on the Internet. And they were looking at how can we stop the migration outside of Wisconsin among retirees. And, obviously, Wisconsin has the same considerations Nebraska does. They're a northern state, the weather is always a determining factor. Their study found that taxes on Social Security and pension income was not the determining factor among non-baby-boomer retirees. We're just retiring so the pattern of migration might be different among my generation and I believe it's going to be. What they felt...what they saw the determining factor being was the inheritance tax and that coupled with taxation on Social Security benefits and retirement benefits. I don't know how many of you realize how high the inheritance tax is in Douglas County. It starts out at 1 percent if you're a son of the deceased, which I've been in that situation. I've also been in the situation where I was a nephew of an aunt; 13 percent. If I were to leave my inheritance to a non-relative, 18 percent. That's outrageous. I mean...and how much... [LR155]

SENATOR HADLEY: One minute, sir. [LR155]

WILLIAM HAYFORD: Okay. Okay. How much tax are you losing if you eliminate or reduce that inheritance tax? The lady with Douglas County said \$9 million. That's pocket change. That will be the determining factor in my remaining in Nebraska. And I know of others that are looking at making that same decision. It's kind of ironic that, having worked for the state of Nebraska for 39.5 years, Nebraska will probably be deprived of taxation on my pension income as a result of this onerous tax (inaudible)... [LR155]

SENATOR HADLEY: The taxation income paid your salary for 39.5 years, didn't it? [LR155]

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WILLIAM HAYFORD: Yeah, well, that's true. (Inaudible) [LR155]

SENATOR HADLEY: Yeah, I was going to say, we've had other people that worked for the state that come in and... [LR155]

WILLIAM HAYFORD: And I appreciate that, yes. [LR155]

SENATOR HADLEY: Yeah, that... [LR155]

WILLIAM HAYFORD: But I do think this committee does need to consider the impact of inheritance tax on migration out by retirees outside of the state of Nebraska. [LR155]

SENATOR HADLEY: Thank you. Questions? Seeing none, thank you. Is that it? Thank you. We appreciate your staying a little extra. We appreciate your input and we will keep it going. (See also Exhibit 36). [LR155]