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Revenue Committee  
February 06, 2015

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[LB153 LB191 LB249 LB278]

The Committee on Revenue met at 1:30 p.m. on Friday, February 6, 2015, in Room 1524 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LB153, LB191, LB249, and LB278. Senators present: Mike Gloor, Chairperson; Paul Schumacher, Vice Chairperson; Lydia Brasch; Burke Harr; Jim Scheer; Jim Smith; and Kate Sullivan. Senators absent: Al Davis.

SENATOR GLOOR: Good afternoon. Welcome to the Revenue Committee of the Nebraska Legislature. I'm Mike Gloor. I'm the Senator from District 35, that's Grand Island. We will cover the bills today as listed on the agenda that's posted in the back of the room and several other places around the Capitol. Would encourage you, if you would like to, to provide testimony. Today, if you do so, understand that the order of testimony is the introducer of the bill, proponents, opponents, neutral capacity, and then the introducer has the chance to close. If you are testifying and have handouts, we need ten copies of those handouts so that we all have a copy to look at as well as some for the record. If you don't have ten copies, put your hand up and we'll get the pages to make a copy for you so that we can get this taken care of. When you come up to testify, please give us your name and then spell your name, not for us necessarily, but for those folks who are taking the transcription who are located elsewhere. We want to get an accurate record. If you don't want to provide verbal testimony, but would like your stand on this bill to be known, there are white sheets in the back of the room and you can do that and we can make sure and record your stand on this. Another little thing, and I'm looking at some familiar faces in the room who understand this. If there are bills that you would like to carry your testimony over on, bills that you support, or are opposed to, or neutral capacity, you can tell us and we can make that effective for the record. We may not have that at work with some of the bills today, but we may, in which case you have that option available so that you don't have to stick around for the entire meeting. Please speak into the microphone so that we can get your name and pertinent information clear. I also make that as a reminder to the Senators so that we can pick up their questions for purposes of the record also. To my right is counsel for this committee, Mary Jane Egr Edson. At the far end, we have as our clerk today, Jan Foster. She's not our normal clerk, but she is...we're lucky to have a deep bull pen and pulled out one of our specialists from the bull pen who is filling in today, with an illness to our normal clerk, Krissa Delka. And...oh, we have a research analyst here today, Kay Bergquist is also with us. With that, I will ask the committee members to introduce themselves. We'll start with Senator Scheer today.

SENATOR SCHEER: Switch up. (Laughter) I'm Jim Scheer, representing District 19, which is northeast Nebraska, Madison and a little part of Stanton County.

SENATOR SMITH: Jim Smith, Legislative District 14 in Sarpy County.

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

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

SENATOR BRASCH: Lydia Brasch, District 16, Cuming County, Burt County, and Washington County.

SENATOR GLOOR: We have some senators like Senator Harr right now, as an example, who have to introduce bills with other committees and so you may see senators come and go. That happens a lot with all committees. So don't take that or read that as anything that relates to your bill or disinterest in your bill. It's the nature of the challenges we have in scheduling. We have a light system also. We ask you to keep your testimony to five minutes. You'll see the lights when you get up here. It's a little bit like a drag race. Green light is go, yellow light, you've got a minute to go, and when it's red light, we'd ask you to put on the brakes, wind things up, if you would, otherwise I'll have to kind of nudge you in that direction. And with that, we'll get started with our first bill. Senator Morfeld, LB153...oh, excuse me. Go ahead and have a seat, Senator Morfeld, LB153. We have two pages with us today. Colin, who is from Wayne, and Donnie, who is from Lincoln. And they're there to help you as well as us. Welcome.

SENATOR MORFELD: Good afternoon, Senator Gloor and members of the Revenue Committee. My name is Adam Morfeld. That's M-o-r-f-e-l-d, and I represent the "Fighting 46" Legislative District in northeast Lincoln. I'm here today to introduce LB153, a bill that would exempt college textbooks, both print and on-line, required or recommended from a course at an institution of higher education, from sales tax. LB153 would apply to any full or part-time student attending a Nebraska institution of higher education, including community colleges, state colleges, the University of Nebraska system, and private institutions. I introduce this bill for a number of reasons, including that this represents targeted tax relief to a constituency that I believe is in need. Anything that we as policymakers can do to ease the financial burden on students and families with regard to the high cost of attending college, we should do, given the sky-rocketing cost of higher education across the country. The average debt load for a Nebraskan graduating from a four-year institution is \$26,000, approximately, and in my own personal case, it is over \$100,000 after I attended law school. LB153 is just one way to help by requiring...excuse me, by making required textbooks tax free. I should note that this is a part of my broader initiative to look at the systemic costs...of causes, excuse me, of runaway cost of higher education in our country by introducing legislation to create a commission of higher education affordability, which will include members of the Legislature, all four major academic institutions, and other stakeholders across the state. That's not today's bill. The cost of attending college has become more prohibited due to the increases in tuitions, fees, room and board, to the point where many worthy

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students just can't afford to go or encourage...incur a large amount of debt to attend school. I want to do what I can and where I can to help ease the burden and the cost of that education. LB153 is a simple, yet effective, way to ease the burden of attending college. I urge your favorable consideration of LB153 and would be happy to answer any questions. [LB153]

SENATOR GLOOR: Senator Morfeld, would this pertain to students who are enrolled in colleges outside of the state who buy textbooks in Nebraska, or only those people who file Nebraska taxes? [LB153]

SENATOR MORFELD: That's a good question. And after we had drafted the bill, we had talked to Bill Drafters a little bit about the fiscal note and I think that I need to work with the committee...and we've already drafted an amendment. I don't know if we've sent it out to you guys yet. I'll send it out to you. That narrows it a little bit. It has to be somebody that is taking a course in the state of Nebraska and it has to be for a required course as an institution of higher education within the state of Nebraska. And it has to be a required book too. [LB153]

SENATOR GLOOR: So, I'm thinking of schools like Kaplan and University of Phoenix. Would those fit your categorization of institutions of higher learning? [LB153]

SENATOR MORFELD: You bring up a very good point and that's probably something we need to clarify in the amendment. I personally believe that if you're a Nebraskan, you live in Omaha or Lincoln or outstate, and you're taking an on-line course, even if it's from an out-of-state school and you buy the books for that course, then I personally think they should be tax free. [LB153]

SENATOR GLOOR: Okay. Senator Brasch. [LB153]

SENATOR BRASCH: Thank you, Chairman Gloor and thank you, Senator Morfeld. This is a very thoughtful bill. What I am curious about is, I love art history and those books are very, very expensive. Could I walk into the Nebraska Book Store and pull an art history book off the shelf and get it tax free, because it's a required book? Are they going to ask for a student ID, or how does that sales tax exemption...how will this be carried out? [LB153]

SENATOR MORFELD: Yeah. Well, in order for the retail establishment to comply with the law they should ask if you're a student, and then if you lie, then obviously you're evading taxes. But on-line, as well, there's systems in place where you could just push...click a button saying that I'm a student, this is a required textbook and they would take that off. I've seen that in other states, or I haven't done it myself, obviously, but I know that other states have a system like that. [LB153]

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SENATOR BRASCH: That I could buy...would they verify my being a student if I choose to buy it on-line? If by clicking, there's no verification? [LB153]

SENATOR MORFELD: There's no verification right now, I mean and, you know, on-line textbooks, I mean, it's...with anything on-line, it's kind of the wild west right now. I know that Nebraska and many other states are currently...and the federal government, actually, is trying to tighten that up a little bit making sure people can't evade taxes and pay them right at the point of sale on-line rather than be required to report later down the road which a lot of people either purposely don't or forget. [LB153]

SENATOR BRASCH: What about a rebate if they pass all their classes? (Laughter) [LB153]

SENATOR MORFELD: I would be more than willing to work with you on that, Senator Brasch. I think that would be an interesting...interesting legislation. [LB153]

SENATOR BRASCH: Okay, yeah. And do other states offer this as well? [LB153]

SENATOR MORFELD: Yes, they do. [LB153]

SENATOR BRASCH: How many? [LB153]

SENATOR MORFELD: And I knew you were going to ask me that, and I didn't bring the number today, but I can follow up with you on that. [LB153]

SENATOR BRASCH: Okay. I have no other questions. Thank you. [LB153]

SENATOR MORFELD: Yeah, thank you. [LB153]

SENATOR GLOOR: Senator Schumacher. [LB153]

SENATOR SCHUMACHER: Thank you, Senator Gloor. And thank you for bringing this bill. It highlights another one of those areas of where we can help our young people out. [LB153]

SENATOR MORFELD: Thank you. [LB153]

SENATOR SCHUMACHER: The \$12 million fiscal note, if I divide that by 7 percent, it comes up with \$176 million. That can't be right. There isn't \$176 million of textbooks sold in the state, is there? [LB153]

SENATOR MORFELD: Glad you pointed that out, Senator. It didn't seem right to me either and I think that after I saw that fiscal note, I...I agree with you. It doesn't seem

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right and that's why we're trying to narrow the language a little bit. We also want to make it so that it's easy to comply with on and that, you know, people can actually take advantage of it too. It's a balance. But I think the fiscal note is a little high. [LB153]

SENATOR SCHUMACHER: I mean, that number, I...that is...(inaudible). [LB153]

SENATOR MORFELD: I mean, I would be shocked if we had \$176 million in textbook sales in the state of Nebraska, but. [LB153]

SENATOR SCHUMACHER: How many kids are there going to school? You know, college in Nebraska you divide it with that. I mean, it just really struck me as a huge figure. [LB153]

SENATOR MORFELD: Yeah, I agree. [LB153]

SENATOR SCHUMACHER: Thank you. [LB153]

SENATOR GLOOR: Other questions? Seeing none, are you going to stay to close? [LB153]

SENATOR MORFELD: Yes, I am. And I think there's a few more people testifying than I thought would be, so. [LB153]

SENATOR GLOOR: Okay. Thank you. [LB153]

SENATOR MORFELD: Thank you. [LB153]

SENATOR GLOOR: Could I see a show of hands of people who wish to testify on this bill, in favor of it? Those opposed to it? Those in a neutral capacity? Okay. We'd start with proponents. If you'd move to the front so that we're not spending quite as much time in going to and fro. Welcome. Have a seat. [LB153]

NICK DEVINE: (Exhibit 1) Senator Gloor, members of the Revenue Committee, good afternoon. My name is Nick Devine. For the record, N-i-c-k D-e-v-i-n-e, and I'm a student at the University of Nebraska-Lincoln. Today, I'm here to speak on behalf of the University and our students in support of LB153. The typical student, without scholarships or grants, pays roughly \$18,000 in tuition fees as well as room and board at the University of Nebraska-Lincoln. That's for instate students. For out-of-state students, this price jumps to around \$32,000. Our Board of Regents has stated that tuition and fees has had a 93.7 increase over the last decade and a 14.7 increase in the last three years that I've been studying here. Neither of these increases account for textbooks, which according to college boards can add around \$1,200 every year to student's costs. Textbooks themselves are growing in price faster than anything else. At

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an 812 percent increase over three decades, they leave behind tuition, medical services, new home prices, and inflation. Already we see students who would rather risk struggling in classes than pay for these books. Students at the university need a break. If we're full-time students, we cannot have a full-time job. And many of us depend on loans, grants, and scholarships to stay in school. On top of tuition, we need to pay for our food, housing, school supplies and other necessities. Now all students can rent textbooks or buy textbooks digitally to lower the prices, we still pay exorbitant prices for books we may or may not be able to return. The fifty to seventy-five dollars in taxes we spend on textbooks could mean meals for a weekend or rent at the end of the month. Currently, twenty-two states offer tax exemptions on textbooks. The students at UNL ask that you push this bill to the floor so that we can be the twenty-third. While textbooks will no doubt continue to be rising costs for students, by passing LB153 the state can further facilitate higher learning in our state. Thank you for your time. [LB153]

SENATOR GLOOR: Thank you, Mr. Devine. I'm probably beating Senator Schumacher to the punch on this, but what do you think of the figure of \$1,200 per student per...was that semester or a year? [LB153]

NICK DEVINE: That's for the year, and that's fairly accurate. I can't speak for every UNL student, but I know in this past year I have spent, I think, \$1,300 on textbooks. [LB153]

SENATOR GLOOR: Okay. Thank you. Other questions? Senator Schumacher. [LB153]

SENATOR SCHUMACHER: Thank you, Senator Gloor. If it's \$1,200 a year, you say... [LB153]

NICK DEVINE: Uh-huh. [LB153]

SENATOR SCHUMACHER: ...and our figure was \$176 million a year for textbook sales, it would mean that we have about 107,000 college students in the state. Is that sum...how many is at the university? [LB153]

NICK DEVINE: At the university, including grad students, I believe there's a little under 25,000. [LB153]

SENATOR SCHUMACHER: Wonder where we've got them stored. Thank you. [LB153]

SENATOR GLOOR: Other questions? Senator Scheer. [LB153]

SENATOR SCHEER: Want to relate part of Senator Schumacher's comments, would you agree with the statement that as an undergraduate, your books are substantially less. I think, Senator Morfeld made the comment, especially like the law school, your books can equal \$100,000 over the three years. So although as an undergraduate, it

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may be \$1,200, and it goes up substantially if you were in a professional school.  
[LB153]

NICK DEVINE: Yeah, and I've never... [LB153]

SENATOR SCHEER: Haven't made it there yet. [LB153]

NICK DEVINE: ...been there yet, but I would assume, most likely, costs could go up.  
[LB153]

SENATOR SCHEER: Okay. Thank you. [LB153]

SENATOR GLOOR: Other questions? Senator Brasch. [LB153]

SENATOR BRASCH: Thank you, Chairman Gloor, and thank you, Mr. Devine, for coming forward to testify today. And when you were done with your textbooks, semester is over, do you sell your books back to the book store? [LB153]

NICK DEVINE: Yeah, oftentimes you do have the ability to sell your textbooks back. I've yet to see any textbook get sold back for anywhere near the price that you buy it from. You can also use other methods. You can sell it on Amazon or Chegg or a few other on-line retailers and try to make your money back there. [LB153]

SENATOR BRASCH: And when you...at this point when you're paying the sales tax and you sell it back to wherever, do they give you back sales tax? [LB153]

NICK DEVINE: I am not aware that they do, but I don't know for sure. [LB153]

SENATOR BRASCH: Okay. I have no other questions. Thank you. [LB153]

SENATOR GLOOR: Seeing no further questions, thank you. Other proponents?  
Afternoon. [LB153]

JORDAN KOCH: (Exhibit 2) Afternoon. Chairman Gloor and members of the Revenue Committee, my name is Jordan Koch, J-o-r-d-a-n K-o-c-h, and I'm the student body president at the University of Nebraska-Omaha. I am proud to be here today and thank you for allowing me to testify in behalf of the UNO student government in support of LB153, a bill that I believe has critical implications for the students at both my institution and others across the state. I would like to begin by telling you a little bit about myself. I was born in South Dakota, but moved to Omaha to attend UNO. I'm in my senior year and plan to graduate in December with my bachelor's degree in elementary education. After graduation, I hope to remain in the Omaha metro area and work in a K-6 school and get my master's degree at UNO, of course. Campaigning for the position of UNO

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student body president, I ran on three major platforms that were concerns to students on campus. One of them was affordability of textbooks. I heard from many of my fellow students that they were worried about their ability to pay for textbooks in addition to the other costs of attending college. Keep in mind that textbooks are a major part of the educational experience, so for most of us, these are nonnegotiable costs. Our research backs this up. Over the past year I worked with members of our student government and UNO faculty senate to survey students about their top concerns on campus. We had over 1,500 responses to our survey and educational costs, including textbooks along with tuition and fees, ranked among the top ten concerns for students. A college education is a significant investment for students. UNO is a great value and we offer the most competitive tuition rates in the region for a bachelor's degree, but even with our low tuition rates, many students have to take out loans in order to support their educational journey. Textbooks on top of tuition and fees make those costs much higher. UNO estimates the cost of textbooks and supplies this past year at \$937 per student. That can be higher or lower depending on a student's major. Add on a 7 percent sales tax and students can be paying upwards to \$1,000 a year. Without a textbook sales tax, students could use their extra savings to allocate towards rent, food, or gas, all of which are typical college student investments. Running on a low budget, I, and every college student, greatly appreciate every extra dollar we have. As a proud representative of the 15,227 students of UNO, I encourage you to support LB153. This is an investment in the future of Nebraska, the students. Help me and the other students from across the state save costs on an item that is a necessity for learning. Thank you for allowing me to express our student opinion today and I greatly appreciate everything you do to support higher education in Nebraska. I would be happy to take questions at this time. [LB153]

SENATOR GLOOR: Thank you, Ms. Koch. Questions? Seeing none right now. Thank you and thank you for your willingness to run for an elected office. (Laughter) We are very empathetic. Other proponents? [LB153]

JORDAN KOCH: Thank you. [LB153]

TIP O'NEILL: Senator Gloor and members of the Revenue Committee, I'm Tip O'Neill, that's T-i-p O'N-e-i-l-l. I'm the president of the Association of Independent Colleges and Universities in Nebraska. I represent 14 privately-controlled, nonprofit colleges and universities which are located in this state. We enroll about 33,000 students here in Nebraska. Of a total enrollment, the fall of 2013, of 139,000 students total...that's the total enrollment in the state of Nebraska. Of course, that includes... [LB153]

SENATOR GLOOR: What was that number again? [LB153]

TIP O'NEILL: One hundred thirty-nine thousand students. That includes students in the University of Nebraska sector, the state college system, the community college system,

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the independent colleges and universities and the for-profit colleges and universities. So, that's a significant number of students that are enrolled in the state. We support LB153. Of course, price and costs are important issues for us. We know that the price and costs for colleges have outpaced inflation for many years. There are many factors that have caused that. We do know that in the independent sector in Nebraska that the net costs for colleges have actually been...have actually not been higher than inflation in Nebraska, which is, I guess, good for students. It's not necessarily been positive for faculty salaries and those sorts of things, but it's been good for student prices. But in our debt loan for students is considerably lower than the national average in the independent sector, but we do support measures that will not lead to increased costs for students and that's why we're here supporting LB153. I'd be happy to answer any of your questions. [LB153]

SENATOR GLOOR: Thank you, Mr. O'Neill. Questions? And your number of 139,000 wouldn't include any of the on-line institutions? [LB153]

TIP O'NEILL: If they were counted as students in Nebraska, yes, it would. [LB153]

SENATOR GLOOR: It would? [LB153]

TIP O'NEILL: Yes. [LB153]

SENATOR GLOOR: Okay. Thank you. Other proponents? Anyone in opposition? And I believe there was somebody in a neutral capacity. [LB153]

RENEE FRY: (Exhibit 3) Good afternoon, Chairman Gloor and members of the Revenue Committee. My name is Renee Fry, R-e-n-e-e F-r-y and the executive director of the OpenSky Policy Institute. I'm here today to testify neutral to LB153 and this testimony does apply to all the bills scheduled for today. There's been a great deal of discussion about expansion of the sales tax base in Nebraska. As has been noted in the Syracuse, Burling, and Tax Modernization studies, an ideal sales tax would apply comprehensively to all consumer goods and services, and exclude from the tax base products and services in the production of other goods and services, otherwise business input. The Legislature's decisions about which goods and services are taxed and not taxed are as important to the amount of revenue collected as the sales tax rate because the more that is exempt from sales tax, the higher the rate must be to raise the same amount of revenue. As a result, sales tax revenues may raise and fall not only because of the changes in how much Nebraskans are buying, but what they are buying. Tax expenditures function just like spending in the sense that they represent money the state is using for some purpose. The difference is that instead of being collected and then spent, the money is not collected in the first place. However, the rules for tax expenditures and regular spending are very different. For regular spending, the Legislature must appropriate funds for each program every biennium, which means the

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spending can only continue after being reviewed at least every two years by the agency in charge, the legislative committee that oversees it, the full Legislature, and the Governor, as you are all well aware. A tax expenditure, however, generally only goes through this process once, and then it's permanently written into the tax code with no requirement that it be reviewed again. For this reason, tax expenditures can outlive their usefulness or outgrow their expected costs, turning into significant, but unnoticed drains on the state budget. As a result, while appropriations are under regular review, tax expenditures are essentially on autopilot once enacted. Therefore, if you believe the underlying purpose of the bills being heard today have value, we would encourage you to consider other ways to achieve those objectives that will ensure that they're regularly reviewed to assess their effectiveness like other spending, such as through the appropriations process. Thank you for your time and I'd be happy to answer any questions. [LB153]

SENATOR GLOOR: Are there any questions for Ms. Fry? Senator Scheer. [LB153]

SENATOR SCHEER: Thank you for coming, by the way, Renee. Just specifically so we don't miss something. Your request that this testimony would also be included not only in LB153, but LB191, LB249 and LB278, would that be correct? [LB153]

RENEE FRY: Yes, that's correct. [LB153]

SENATOR SCHEER: Okay. thank you. [LB153]

RENEE FRY: Thanks. [LB153]

SENATOR GLOOR: Senator Schumacher. [LB153]

SENATOR SCHUMACHER: Thank you, Chairman Gloor. Just one quick question. Do you happen to know on what demographic does the sales tax fall on the most? [LB153]

RENEE FRY: Low-income...low-income folks. [LB153]

SENATOR SCHUMACHER: And by low-income, do we mean...do you have numbers on that, or just...? [LB153]

RENEE FRY: I mean, I can get to you a chart that shows the regressivity of the tax code. I don't have information...we can look at the census data, like I know off the top of my head that the group that is most likely to be in poverty in Nebraska are single mothers with children under the age of five, for example. But I can certainly look by age group and get that information to you based on census data and terms of what the poverty rates are. Apart from that, I'm not sure that the Department of Revenue puts out demographics, so we could show the regressivity by income, but I'm not sure that we

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could say...we can look and say, you know, minorities are more likely to be in poverty, but I can't break that down by income, I don't think. But I can look and see what's available. [LB153]

SENATOR SCHUMACHER: And then the train model study that came out last year would indicate that a cut in sales tax carries more bang than a cut in income tax, if I remember right, is that your recollection? [LB153]

RENEE FRY: Yes, that's right. Yes, that's my recollection as well. [LB153]

SENATOR SCHUMACHER: Thank you. [LB153]

SENATOR GLOOR: Other questions? Seeing none, thank you. [LB153]

RENEE FRY: Thank you. [LB153]

SENATOR GLOOR: Anyone else in a neutral capacity? Senator Morfeld, for closing. [LB153]

SENATOR MORFELD: Members of the committee, thank you. To answer your question, Senator Brasch, we actually...there's 15 states, but that's as of 2007. This is actually something I kind of dusted off the cobwebs from my student government days. We brought this bill in 2006 or '07. And what I'll do is, I'll find the new map and see if there's any updates to that, then send it out to the committee as well. You know, as far as some of the other things that were asked, I know that somebody brought up...maybe it was you, Senator Scheer, about professional school. When I was in law school it was anywhere from two to three thousand dollars a year in books, so it's significantly more. And, you know, the other thing that I think we should note is that newspapers are sales tax exempt as well. And I think that there's probably some rationale behind that. My rationale behind this is that if somebody is going to school, whether they're young or old or in-between, to get a higher education, to become more skilled, to hopefully make more money down the road which leads to other good things like tax collection, and...well, depending on how good you think that is, but for revenue purposes. You know, I think that this is a worthy thing to be exempted from, sales tax, is the pursuit of education and the pursuit of knowledge. Be happy to answer any other questions. [LB153]

SENATOR GLOOR: Senator Brasch. [LB153]

SENATOR BRASCH: Thank you, Chairman Gloor, and thank you for finding the answer and I believe Mr. Devine had mentioned 22 states so we're at two different numbers...(inaudible). [LB153]

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SENATOR MORFELD: I didn't even hear that. I was busy looking for this old stuff here, (laugh) so. [LB153]

SENATOR BRASCH: It must have grown. My question to...oh, in response to the newspapers, the history behind that is that at one point, young kids collected paper...had paper routes and they would go door to door and for them to try to figure out sales tax and collect sales tax. Things are changing now and that question has been raised and most things are paid on-line. I'm curious though on students that may be in college on a scholarship or a grant that included textbooks. Would that just be... [LB153]

SENATOR MORFELD: I think that money would just go a little bit further under this bill. [LB153]

SENATOR BRASCH: A little further. [LB153]

SENATOR MORFELD: Yep. That's how I envision it unless you see...is there something else that you kind of see as... [LB153]

SENATOR BRASCH: I don't know if it would be a...something that they...would that money go back to the person that gave them the scholarship, you know, that...or back to the grant, or would it go to the student? Is that, you know, the direction of the dollar saved in the case of a scholarship or a grant? [LB153]

SENATOR MORFELD: I never received a textbook scholarship but the people that I knew that did several years ago, they either spent the money for their required textbooks and then the rest of the money went back, or they got reimbursed just for that exact amount. So I just think that it would stretch those textbooks scholarship dollars a little bit further, and maybe be able to provide more dollars for other students as well. [LB153]

SENATOR BRASCH: Thank you, Senator Morfeld. And I do acknowledge that textbooks are a huge part of a student's budget, very cumbersome. Thank you. [LB153]

SENATOR MORFELD: Thank you, Senator. [LB153]

SENATOR GLOOR: Senator Smith. [LB153]

SENATOR SMITH: Thank you, Mr. Chair. Senator Morfeld, about...a little more than a twelve million dollar fiscal note per year, would your thought be to offset that with reduction in spending, or would you seek to offset it with an increase in a tax elsewhere? [LB153]

SENATOR MORFELD: I hadn't really thought that far down the road. I think that we'd

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probably have to offset it with spending elsewhere. I don't think right now we're in a place where we want to raise taxes and that's not what I heard from my constituents, probably not what you've heard from your constituents, so. [LB153]

SENATOR SMITH: Right. [LB153]

SENATOR MORFELD: So I would think we'd have to offset it somewhere, Senator. [LB153]

SENATOR SMITH: Any particular thoughts? [LB153]

SENATOR MORFELD: I knew you were going to ask me that. (Laughter) Not right now, but I'll think deeply about it this weekend. [LB153]

SENATOR SMITH: All right. Thanks. [LB153]

SENATOR MORFELD: A legitimate question though, joking aside. [LB153]

SENATOR GLOOR: Any additional questions? Seeing none, thank you, Senator Morfeld. [LB153]

SENATOR MORFELD: Thank you, Senator Gloor and members of the committee. [LB153]

SENATOR GLOOR: And that will end the hearing on LB153. We'll now move to LB191. Senator Bloomfield. Welcome to Revenue, Senator Bloomfield. [LB153]

SENATOR BLOOMFIELD: Thank you, Senator Gloor. This is a first-time experience in this committee. [LB191]

SENATOR GLOOR: Would you like us to go easy on you or hard on you? [LB191]

SENATOR BLOOMFIELD: This is such a simple little bill. You know how it is. Good afternoon, Chairman Gloor and members of the Revenue Committee. For the record, my name is Senator Dave Bloomfield, D-a-v-e B-l-o-o-m-f-i-e-l-d, and I represent the 17th Legislative District. I'm here today to introduce LB191 to the committee for your consideration. It is a fairly straightforward bill that I was asked to bring by a member of the Veterans Service Organization. LB191 looks to amend Section 77-2704.10 which deals with the exemption in the state sales and use tax. Currently, we allow exemptions on prepared food and the food ingredients from public or private schools, school districts, student organizations, parent-teachers associations, churches, items served to patients and inmates in hospitals, and other institutions licensed by the state for care of human beings; food sold at political events by ballot questioning committees, candidate

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committees, independent committees, and political party committees; food sold to the handicapped, or recipients of Supplemental Security Income. With LB191, I am seeing to include food sold by a Veterans Service Organization. We have several active Veterans Organizations in the state that at times have events where they prepare and sell food. It's my belief that currently there is a lot of confusion among these groups as to when they need to pay the sales tax and use tax. So we have some of these organizations that are paying it, some that aren't, and some that really aren't aware of it. These are organization that in most cases barely break even after they have to pay the sales and use tax and the money they raise going to help our veterans and service members. These groups also help our local communities by funding activities, fire departments, libraries, and school events. The passage of LB191 would alleviate the confusion...lost my spot. And while there is a fiscal note, it is minimal. I know this is a bad time to be asking for exemptions, but this is one I think we can afford. I'll be followed by some individuals who will be able to give you some specific examples as how it affects the various groups. Thank you for your time and I would try to answer any questions. [LB191]

SENATOR GLOOR: Are you going to stay for closing? [LB191]

SENATOR BLOOMFIELD: I probably will, yes. [LB191]

SENATOR GLOOR: Okay. Questions? Senator Schumacher. [LB191]

SENATOR SCHUMACHER: Thank you, Chairman Gloor. Just one quick question. The sale of this food, prepared food, this is on the premises owned by the VFW or American Legion? [LB191]

SENATOR BLOOMFIELD: Yeah, that is my understanding of it anyway. If I learn something different, I'll certainly let you know, but if you go in Wakefield tomorrow, it's holding...or yeah, tomorrow, it has a pancake breakfast. Sunday, Winside has a soup lunch. [LB191]

SENATOR SCHUMACHER: And it's on their own premises? [LB191]

SENATOR BLOOMFIELD: It's in their buildings, yes. [LB191]

SENATOR SCHUMACHER: The bill isn't real clear on that, but thank you for clarifying that. [LB191]

SENATOR BLOOMFIELD: Well, if there's an area there you feel needs to be tightened up, I'll certainly work with you on that. [LB191]

SENATOR SCHUMACHER: Thank you. [LB191]

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SENATOR GLOOR: Aren't Congressionally chartered veterans organizations tax exempt in terms of income, but...? [LB191]

SENATOR BLOOMFIELD: You're going to have to ask somebody behind me that knows the answer to that. [LB191]

SENATOR GLOOR: Well, I'm asking the question so that somebody can be queued and ready for it. [LB191]

SENATOR BLOOMFIELD: Be ready for it. [LB191]

SENATOR GLOOR: Yeah, be ready for it. Because the question would be, is this really an issue of confusion or an issue of the...you know, the Tax Commissioner has, in fact, chastised somebody? I mean, my general question is for someone to answer, is this to avoid a problem or has it, in fact, been a real problem, so. [LB191]

SENATOR BLOOMFIELD: And I don't have the answer to that, but I do know as I've talked to a couple of our small districts, the Legions, and one of them wanted to know where they were supposed to be paying tax and the other one said they take the total amount of whatever they take in that day and divide it out and send the appropriate amount down. And there was a third answer I don't quite recall, but... [LB191]

SENATOR GLOOR: Okay. [LB191]

SENATOR BLOOMFIELD: ...they really don't know what they're supposed to be doing, how they're supposed to do it. I think this would clear that up. And given the fact that they use their money, you know, they're not building up a fat account somewhere that they're trying to skim off of it. They put the money back in to use in the community. [LB191]

SENATOR GLOOR: Other questions? Senator Scheer. [LB191]

SENATOR SCHEER: It's a small fiscal note, so I'm not...I'm just playing devil's advocate. You have a community where you've got to a VFW or an American Legion. Saturday night they're serving burgers and fries and the guys are having beers. Two blocks away you've got, you know, downtown... [LB191]

SENATOR BLOOMFIELD: The local establishment? [LB191]

SENATOR SCHEER: ...local establishment, they're serving the same hamburgers, same fries, same tap beer. If I go in there, I'm going to have to pay a 7 percent sales tax. If I go in the American Legion, the VFW, I'm not. [LB191]

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SENATOR BLOOMFIELD: That's right. [LB191]

SENATOR SCHEER: So you're putting the local businesses somewhat at a price disadvantage from that advantage point. So how...how do we respond to the entity that would be in competition? [LB191]

SENATOR BLOOMFIELD: I think we go back to the difference while I love free enterprise as well as the next guy, but we have a service organization here that's going to put that money back into the community, you know, and you're going to say that so does the local business and they do to an extent, but I don't think to the extent that the veterans group does. [LB191]

SENATOR SCHEER: Well, it... [LB191]

SENATOR BLOOMFIELD: Yeah, it...you could call it (inaudible). [LB191]

SENATOR SCHEER: I mean, they do to the extent...I mean, it is still somewhat apples and oranges because if I'm the operator, yeah, I'm not going to make...I don't have as much margin perhaps as the VFW because perhaps some of their laborers donate it for all I know, so they do have less costs and so they would have more money to provide for a community and vets. But if I'm also there as an independent business person, I may have two or three kids that I'm having to buy clothes for, and so forth, and from a funding source, although I'm not donating to the community, I'm still providing dollars and within the community that will be multiplied as well. I'm not... [LB191]

SENATOR BLOOMFIELD: Yeah, I understand. [LB191]

SENATOR SCHEER: I'm not trying to say it, but I mean, you know, I think sometimes, you know, we, in our zeal for trying to do some things that sound great, there is occasions where that would have a political impact...financial impact on others within the community. In some communities it may not make a darn bit of difference but some others it might. I don't know. [LB191]

SENATOR BLOOMFIELD: In all likelihood, the labor is all going to be donated at the Legion Club or the VFW or whatever. So, you have a legitimate point there. All I can say, maybe somebody behind will have a better answer as consider where the money is going. [LB191]

SENATOR SCHEER: Now the only difference would be those are membership clubs, if I'm not correct, and they would be paying the dues so to a certain extent they're only providing those products to their own members versus the general public. Is that a fair assessment? [LB191]

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SENATOR BLOOMFIELD: I'd like to say yes, but no, I can't say that because when we have something in Winside, half the town comes whether they're qualified to be a member or not. The small communities support the Legion and the Legion then turns support to small communities. [LB191]

SENATOR SCHEER: Thank you. Thank you, Senator Gloor. [LB191]

SENATOR GLOOR: Thank you. Any other questions? Thank you, Senator Bloomfield. Could I see a show of hands of those who plan to testify in support of this bill? Thank you. Those in opposition? Those in a neutral capacity? Okay. Thank you. [LB191]

RONALD DUPELL: (Exhibit 1) Good afternoon, Chairman Gloor, Honorable Senators. I am Ronald Dupell, R-o-n-a-l-d D-u-p-e-l-l, and I'm here on behalf of the Nebraska Veterans Coalition, the Veterans of Foreign Wars, and the American Legion. I'm testifying in support of Senator Bloomfield's LB191. I'm one of the founders of the Nebraska Veterans Coalition and I'm testifying on its behalf. I have served as the Post Quartermaster, which is the finance officer, for three years for Nebraska's largest VFW Post. Veteran Service Organizations are encountering more challenges to continue the nonprofit activities as a direct result of declining membership and taxation. Exemption of sales tax is request for sales of food by Veteran Service Organizations which are fundraisers to support conduct of the nonprofit services provided to veterans and communities. Each year, more and more Veteran Service Posts are closing. When a VSO Post is closed, the services to veterans and their community are reduced. Tax burdens are a large factor in the financial pressures of posts remaining solvent. Recusing VSOs from paying sales tax on food is a good faith effort to reduce the ongoing closure of VSO Posts. As to Senator Scheer's comment or question, what we are taxing is volunteer efforts to do nonprofit work for veterans and within the community and that is different from the commercial enterprises that sell the same products, if you will. And I think that's a huge difference that a veteran post contributes much more to the community than the average business. And that's not to slight businesses at all. Many of them contribute immensely to our communities. When the city of Omaha implemented the restaurant tax, which they stated to me was modeled after Nebraska sales tax, they opted to exclude Veteran Services Organizations from that tax because the VSOs are not a public restaurant. They understand the difference and we ask that Nebraska recognize that difference. Veteran Service Organizations use volunteers at food events with their posts to provide low-cost meals to its members and families in an effort to raise monies to deal with Post home expenses. They also use food sales monies to support their volunteer efforts for veterans and their communities. For example, VFW Post 2503 has since 1970 provided military honors for well over 9,000 deceased veterans free of charge. They provide a large amount of service to schools including the funding of scholarships. Both the VFW and the American Legion operate extensively in those arenas to provide scholarships both within the community

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and on a national basis. Veteran Service Organizations provide funding annually for scholarships for deserving children. For example, the American Legion raises funds for scholarships for children of military parents who die while on active duty. The Veteran of Foreign Wars funds scholarships for children of veterans as well as funding scholarships within the community under their Voice of Democracy and Patriots Post's events each year. Elimination of sales tax for food fundraisers would allow VSOs to fund more scholarships for children and do other nonprofit work. Several posts have communicated to me that they would be able to fund three to five more scholarships annually if sales tax on food sales was eliminated. How do we contribute to the demise of Veteran Service Organizations in Nebraska? Simply stated, we tax them out of existence. As a Quartermaster, my biggest challenge was finding the monies to pay the multitude of taxes we pay including sales tax which can get pretty extensive when you hold a fundraiser. Many people do not realize that the tax burden of all VSOs in Nebraska is no different than any other business with the exception of being exempt from income tax. They are taxed as a business but do not generally have the capacity to generate business related recurring income. They do not have the products for sale to compete with commercial enterprises in the community. They rely heavily on donations and they rely heavily on being tax exempt to do the nonprofit charitable work that they do. Many people...excuse me. Their income is derived from donations, fundraisers, and dues. The tax burden on a Post is detrimental to its survival. It is more than just lamentable each time that a Post closes its operations because of inadequate revenues compounded by taxation. I can say with each passing month, the pressure of a VSO to shutter their doors is becoming more acute. Oftentimes, VSOs share their facility free of charge to other nonprofit organizations within the community so they could do their work. For instance, at FVW Post 2503, there was six or seven neighborhood associations, the Coast Guard, and multiple other organization that used our facilities to meet. If we can't pay our bills, then they're not going to have a place to meet or they'll have to meet someplace that's not conducive to their operations. So, I'd like to emphasize that we provide that charitable opportunity for the community. The effect of any tax on a VSO to reduce its capacity to assist veterans and their families. I'll skip down. Posts within the city of Omaha are hit particularly hard by Nebraska and Omaha taxation. Omaha through it's liberal use of occupation taxes poses a significant dilemma for Veterans Service Organizations within the city of Omaha. The request for exemption of sales tax on food is not a request for exemption to payment of sales tax on purchases made from vendors to supply supplies to the Post. It is not a request for exemption of payment of sales tax on alcohol sales. I ask that you pass this legislation. Are there any questions? [LB191]

SENATOR GLOOR: As a kid growing up, heading home from ball games, Legion ball games, I would walk by the VFW Post and the Legion Post and the Forty and Eight Post. It always seemed to me like the guys in the Forty and Eight were having a lot more fun than the ones in the Legion and VFW. (Laughter) That's probably because they had been there all day too, I would imagine. And there was another truism and that

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is, for a lot of towns, the best place to eat was in a...was at a Legion Club. There were a lot of great Legion Clubs that had steakhouses that were part of it. North Platte and Lincoln and York and even St. Paul. I mean, I ate at all of them at one time or another in my life. And that's all gone away. But would it have been the expectation that the food sold at those service clubs that had restaurants under their roof would have had that food exempt? And the question about that it has to do with really how this bill is drafted and whether there would be an unintentional consequence of somebody saying, hey, I know a way to get around sales tax, let's work out a deal with the Post and open up our steakhouse there rather than down the street. [LB191]

RONALD DUPELL: I hope my response in on target to your question, sir. First of all, every Veteran Service Organization has rules and guidelines implemented upon them by the Internal Revenue Service in order for them to keep their nonprofit status. Therefore, they are required, or should have, sign-in rosters, and they're limited by the amount of people that can go in there and it means members and their guests. So, it might be that if a Post holds a community function in the center of town, it might be that under this bill that that function might not be tax exempt because primarily, each Post has a weekly food event and they use that money to fund their operations. And the people attending those, that food event, are primarily its own members. There are some guests that come in, but they're required by law to sign in. So they cannot go in the direction I think that you're alluding to because there are limits placed on them by the United States Internal Revenue Service. [LB191]

SENATOR GLOOR: Well, and I would imagine if a competitor felt that they were, in fact, playing fast and loose with the sign-in book... [LB191]

RONALD DUPELL: Yes, sir. [LB191]

SENATOR GLOOR: ...they would make some phone calls and...because of what they considered unfair competitive advantage. [LB191]

RONALD DUPELL: You know, and on that same note, the Nebraska Department of Revenue has been auditing veterans Posts throughout the state of Nebraska in the last 18 months. And to the question about having volunteers come in and manage the financial aspects of the Post, it's just not familiar to law and that's why some Posts are getting in trouble about what they do and do not tax and what they pay tax payments for. [LB191]

SENATOR GLOOR: Okay. [LB191]

RONALD DUPELL: And it's a challenge to come up to speed and know the laws of the state to ensure that the Post is complying with it. And it is a heavy tax burden that's placed on a Post because of the different type of operation that it is. [LB191]

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SENATOR GLOOR: I knew if I asked a Quartermaster, I'd get some answers, so. Other questions? Senator Sullivan. [LB191]

SENATOR SULLIVAN: Thank you, Senator Gloor and thank you for your testimony and to point...and to the point of both of your comments and the Senators, there's...first of all, I'm very proud of the fact that we do have two really good steakhouses in Legion Clubs in Burwell and St. Paul. And if there is a need to clarify this legislation for it to go forward, then we can do that to make sure everybody understands what's legal and what's not. [LB191]

SENATOR GLOOR: Senator Scheer. [LB191]

SENATOR SCHEER: Just for clarification, several times during your testimony you mentioned the taxes up for fundraising in relationship to food. Definitionally, are you then...I'm assuming that anytime you serve food, it is raising funds for the entity. That would be what I understand... [LB191]

RONALD DUPELL: We considered...in our VFW Post, and I think in general we can say the same thing for all of Veteran Service Posts, that their food services that they provide to their members they consider as fundraisers and their members support that, they know that a portion of the meal that they're eating, even though it's provided by volunteers and the cost of that deal is a lot more, the rest of their cost is going toward support Post operations. [LB191]

SENATOR SCHEER: I understood, but to the layman, a fundraiser usually would be a spaghetti feed for Joe Blow, or something else. I just wanted to make sure that we weren't talking about just specific times that you're cooking food. This truly is for all consumption of food on premise. That would be correct. [LB191]

RONALD DUPELL: Yes. [LB191]

SENATOR SCHEER: Okay. Thank you. [LB191]

RONALD DUPELL: Can I offer... [LB191]

SENATOR SCHEER: Sure. [LB191]

RONALD DUPELL: When the State Auditor...excuse me, the Internal Revenue Service for the Department of Nebraska audited us, they asked us the question, you mean, I can't just walk into the Post and order a hamburger? And the answer was a resounding no, because all of our food events are scheduled events. So we're not a walk-in service where you could just walk in and compete with the agency down the street, whether it's

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Subway or whatever. So that it's a totally different type of food operation, scheduled operation versus an impromptu operation you can just walk into. [LB191]

SENATOR SCHEER: But that wouldn't be the case of ever...I mean, I'm thinking of several, but have food service both at noon and dinner hours on a regular basis, but again... [LB191]

RONALD DUPELL: Is it for the members, or is it...? [LB191]

SENATOR SCHEER: Yeah, but it's exclusively to their members so I understand that, but, I mean, the food still is available other than just on special time periods. I mean, it's on a more normal basis, but truly to the members, I understand that. Thank you. [LB191]

SENATOR GLOOR: Thank you. [LB191]

RONALD DUPELL: Thank you. [LB191]

SENATOR GLOOR: Good afternoon, Mr. Holloway. [LB191]

GREG HOLLOWAY: Good afternoon, Senator Gloor and committee. It's kind of nice to be back. I spent yesterday scooping snow all day in Bee. Again, my name is Greg Holloway, H-o-l-l-o-w-a-y, and I'm here to represent the Disabled American Veterans, Vietnam Veterans of America, and the Nebraska Veterans Council, which the other day I explained who all they were, so I won't go into that. We support this bill. The Disabled American Veterans has three chapter houses in the state of Nebraska. Those three of those chapter houses, well, we have more than three, but we have three functioning chapter houses that do have food service. Now, we provide the Disabled American Veterans...and I look after the transportation program in the state of Nebraska, the vans that take veterans to their scheduled appointments. Money we make off of food, off of everything goes into those programs. We are mandated by national to right at, spend down to 50 percent of what we got always. So we have enough to function and we...there are times when the population of Nebraska dwindles and dwindles and dwindles that come to the VFWs, the DAVs, even if it's a civilian that walks in off the floor, which happens in a lot of them, and we depend on one of the...like the VFW in Seward. I'm a member of the VFW in Seward. We have our breakfasts...the auxiliaries have the breakfasts, our fundraiser. We have a lot of civilians that come in off the floor, not just members to have breakfast, so. But they put every nickel they make back into veterans. They don't spend anything on anything else other than veterans. When...let me see. I'm dating myself again. In 1974 I was senior vice commander of VFW Post 131 and if you're...any of you that are old enough, and I know there's a couple in here, that remember eating at the hamburger stand at the State Fair, the VFW hamburger stand at the State Fair, trust me, the tax collector was there every day. Now, we also gave him

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free hamburgers, so once in a while we might have been a little lean on what we said we made, you know. (Laughter) [LB191]

SENATOR GLOOR: We'll look into that. [LB191]

GREG HOLLOWAY: Yeah, we'll look into that, yeah. But, we paid our taxes and we do pay our taxes. Especially in Lincoln, they have this new tax out now because of the Arena. The DAV chapter houses are paying the taxes like everybody else pays. So it would help us take care of our veterans and when you take care of a veteran, you're taking care of their dependents, their dependent's dependents and their dependent's dependents. So you're taking care of everybody. So we'd like to see this move forward. We think it's a good deal. The Nebraska Veterans Council put this on their priority, and so does the DAV and the Vietnam Veterans of America. Thank you for listening to me again. Might be a while before I see you again. I don't know if we have any more coming up, so appreciate you...appreciate it. [LB191]

SENATOR GLOOR: Thank you. And we'll give you a list of addresses of people who could use their sidewalks and whatnot shoveled in case you haven't got enough of that the other day. [LB191]

GREG HOLLOWAY: I live in Bee, Nebraska. I got a four-wheeler with a blade and I gave it a good workout yesterday. [LB191]

SENATOR GLOOR: Thank you. Other proponents? [LB191]

JERRY ANDERSON: (Exhibit 2) Honorable Senators, I'm Jerry C. Anderson, J-e-r-r-y A-n-d-e-r-s-o-n. I'm a Vietnam veteran, volunteer. I'm here representing VFW, American Legion, and also one of the founders of the Nebraska Veterans Coalition. My testimony, I'm changing because I don't want to repeat what's been said. I saw Senator Bloomfield last year in Hastings and I brought this issue up to him, and we worked...the Nebraska Veterans Coalition worked with him developing this. But then also, the Nebraska Veterans Council picked this up as one of their priority bills, so why did I bring this particular one up? I've been the finance officer at the clubs. Now, I'm telling you the regulation is confusing and the reason being if you only have veterans, you don't have to pay tax according to current law. But if you bring in a dependent, then you've got to kind of pay it. Some of the clubs have gotten into problems with this and I'm telling you, I'm not a dumb guy, I got a master's in computer science, but I'm not a lawyer. So I thought that this was a reasonable bill to bring up. Now, LB191 will not save the clubs by itself, but it's a help. I've looked at some of the financial records and it could keep us in the black on some months. Now, I'm on the committee because we...and I'm not going to mention the names, but we're going to work with another American Legion to combine because at the end of the year, we're both going to be broke. Our facilities are old just like the veterans. There are very, very few World II vets left. We've lost our last

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Korean veteran, and I'm a fairly mature Vietnam veteran and we're losing them so the membership is decreasing. The younger members, they're too busy. They're coming back, they're going to school, they're working, they've got the families to take care of, so it's a multitude of problems. Now, I'm on this committee to combine facilities. As I said, both of our facilities are going to be out of reserves at the end of the year, and unless we can move into a single facility, we can cut our costs, cut our expense, utilities, then we can press forward. So, like I said, there's a multitude of functions here, why we're having such financial challenges, but let me bring out one last point. What we're asking is exemption of any food sales to anybody, and it's not...people don't come off the street, basically, yeah, in some cases. We pay sales tax on when we buy the food, we pay sales tax on a liquor, that type. It's just this one small portion. Now the fiscal note says it's \$90,000 and that's basically for half a year thereabouts...it goes up to \$180,000. It's a hit to the revenue, I understand that. The new budget...the new revenue figures, I think, are coming out here in the future so I don't know what that's going to be. But the Governor has cut the budget, growth to 3.1 percent from 6 point...I think 5 or thereabouts, to 4. So I'm hoping that there's room for this approval...to get approval signed by the Governor, the cost is at the most for the next three, four years, is \$180,000. I respectfully request that this come out of committee as is, and are there any questions? [LB191]

SENATOR GLOOR: Any questions for Mr. Anderson? Seeing none, thank you for your testimony again. [LB191]

JERRY ANDERSON: Thank you, Senators. [LB191]

SENATOR GLOOR: Good afternoon. [LB191]

DOUG WHITAKER: Good afternoon, Senator Gloor and members of the committee. My name is Doug Whitaker, D-o-u-g W-h-i-t-a-k-e-r, and I am the state junior vice commander for the Department of Nebraska Veterans of Foreign Wars. I'm here to speak in favor of LB191, and the perspective I would like to bring is from the younger veteran. I'm a Desert Storm veteran. I have two tours in Iraq, 2005, 2010. When I came into the VFW I met a gentleman by the name of Mr. Ronald Dupell and he's testified here today. He and I worked very closely at VFW Post 2503 during the years of 2012 to 2015. When we took over the leadership of that Post, we were six months from going bankrupt. We were spending our reserves that the World War II veterans and the Korean War veterans had built up over time. They really tore it up in the '80s and the '90s on pickles. I'll tell you, they did a really good job. And so they had built a really nice building. We were the largest VFW...we're still the largest VFW in the state of Nebraska, the 25th largest VFW in the world. So we had quite the operation and the building is rather large. Our food operations that we had, it was much different than a full-time steakhouse. We had a canteen operation in which when I took over I understood that we had to pay sales tax on. And Senator Gloor, you were asking about confusion. Well,

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it is confusing because we paid the sales tax on the canteen side of the house because that was the profit side of the house. It's not-for-profit, but on the non-for-profit side of the house, the food sales that we had, we didn't think we were required to pay sales tax on that because they were fundraisers. But then when the revenue agents came in, did their audits for a two-year period of time, we got hit for \$10,000 in back sales tax owed. Now for a Post that just went from losing \$30,000 a year to tightening our belt buckle, getting new members to come in, trying to get people to be patrons of our business, we could have easily folded like many Posts across the state. Two reasons why a Post folds. They fold because membership declines, because of the population in the area, they can't support it. The other reason is they can't support their Post home. The doors have to be closed because they can't afford it anymore. We could have done that, but we turned it around. We worked as hard as we did and we went to making a modest profit of about fifteen to twenty thousand a year. That audit set us back a little bit. Now, that's not the state's fault, that was our fault. We accept responsibility because we didn't understand the law. But moving forward, it's important that the Veterans Service Organizations remain strong in small rural Nebraska. Those are places where people go and gather. They are community centers. They're much different than the average restaurant. They are places where families have funeral lunches. They have, you know, graduation parties, places where doors can be opened for events like that. And the food sales support that. They provide those community centers that communities otherwise can't afford to be...to have. So moving into the future it's important that we do what we can to help those organizations stay alive even in the Boot Hill...in the populated areas in eastern Nebraska. So, I encourage you to pass LB191 to help the younger veterans who are coming up that are soon to be members of our Veterans Service Organizations to have a place where they can go and gather with their families and share stories, and then in the rural areas have a place where the families can gather and have a sense of community. Thank you. [LB191]

SENATOR GLOOR: Thank you. Questions for Mr. Whitaker? Where is Post 2503? I'm guessing it's in Sarpy County. [LB191]

DOUG WHITAKER: It's in Douglas County. It's at 8904 Military Road. It's off from 90th Street on the north side of Omaha. It's got the big plane out front. [LB191]

SENATOR GLOOR: Great. Thank you. Other proponents? Seeing none, anyone that's in opposition to this bill? Anyone in a neutral capacity? We have, I think, Ms. Fry's comments that carry over to this bill and the next two also. With that, Senator Bloomfield, you're recognized to close. [LB191]

SENATOR BLOOMFIELD: Thank you, again, Senator Gloor and colleagues. I remember what the other response was now from the other Legion Club on whether or not they needed to pay. They said we do everything by freewill donation so there is no tax. Again, more confusion. Do they need to pay that tax or do they not? And not

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wanting to pick a fight, Senator Scheer, but if we're worried about competing with the guy down the street, which I think is a legitimate argument, if we can't exempt the American Legions, should we be exempting political parties and ourselves? I don't think so. So, if we can't get this done, I think we need to look at some of the other things we are exempting. I don't believe that we should exempt political campaigns if we cannot exempt veterans organizations. Thank you. [LB191]

SENATOR GLOOR: Any questions for Senator Bloomfield? Thank you, Senator Bloomfield. And that will end the hearing on LB191. If you're leaving, we'd ask you to leave quickly and quietly so we can move on with the additional hearings. Thank you very much. Senator Sullivan, LB249. Welcome to your committee, Senator. [LB191]

SENATOR SULLIVAN: (Exhibit 1) Thank you, Senator Gloor and members of the committee. I'm Senator Kate Sullivan, K-a-t-e S-u-l-l-i-v-a-n, representing Legislative District 41. LB249 would exempt horses from sales and use tax. I introduced LB249 following a conversation with Jim Brinkman of Ericson, which is in Wheeler County in my legislative district. Jim runs the world renowned, family-owned Pitzer Ranch, one of the largest horse ranches in the United States. Pitzer Ranch was founded by his grandfather, Howard Pitzer, who was a friend of my father's. The top quality American Quarter Horses with Two Eyed Jack bloodlines are bred, trained, and sold by the Pitzer Ranch and are in demand worldwide. Each September the Pitzer Ranch holds their three-day fall sale, one of the most anticipated quarter horse auctions in the country. Around eight hundred horses change hands at the fall sale each year. Another smaller sale is held each spring. Many of the horses at the sale are produced by the Pitzer Ranch as stallions and three hundred brood mares. Pitzer Ranch ships horses to buyers all over the world. Nebraska's horse breeders are in competition with breeders in other states, states that exempt the sale of some or all horses from sales and use tax. Nebraska does not. We exempt livestock sold for food. We should also exempt other types of livestock like horses to even the competition for our large livestock producers like the Pitzer Ranch. Kansas, Colorado, Missouri, South Dakota, all exempt the sale of horses for breeding stock. Texas, Wyoming, and Montana exempt the sale of horses for any reason. I would mention that I'd be amenable to simply exempt breeding stock, if that happens to be the wishes of the committee. The Pitzer Ranch is a big economic driver in my legislative district and I'd like to see them receive the same tax benefits as the manufacturers and other sales tax exempt...sales tax exempt businesses. And I would like to share with you a letter that I received--the page can pass them out--from Jim and Tana Brinkman. And, you know, I take to heart what is our concern about the exemptions that we have currently on sales tax, and what Ms. Fry had to say, but I also have to, as the Senator who represents District 41 and is fighting all I can for the future of rural Nebraska, I bring this bill. You know, Ericson is a town well under 100 people, maybe 60 if we count everyone. And this Pitzer Ranch and this Pitzer operation which now is in close to being the 5th generation family, bringing young people back to rural Nebraska, trying their best to spur the local economy, I'd just like to see us help at all we

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can. So, there you have it, and I'd be happy to answer any questions or entertain any comments with you. [LB249]

SENATOR GLOOR: Thank you, Senator Sullivan. Are there any questions for Senator Sullivan? Senator Scheer. [LB249]

SENATOR SCHEER: Thank you. Senator Sullivan, do you suppose because a number of horse sales are not at bigger sales where they would have somebody doing bills of sales and so forth, and quite honestly, if I buy a car, then I have to go to the county and register it, so I'm going to pay sales tax. There's no title with a horse when you buy it, at least not the times that I have, and if it's handled on a private sale basis, I suspect none of that is ever shown as a sales tax. [LB249]

SENATOR SULLIVAN: I think you're probably right. [LB249]

SENATOR SCHEER: So we're not really enforcing a good part of the sales to begin with. Would that be a fair assessment? [LB249]

SENATOR SULLIVAN: That would be my fair assessment as well. [LB249]

SENATOR SCHEER: Okay. Thank you. [LB249]

SENATOR GLOOR: Other questions? Seeing none, thank you. And we know you're staying, whether you close or not. Can I see a show of hands of those who will be testifying for this bill? Well, we'll move to those who would like to speak in favor of this bill, just in case. Those who would like to speak in opposition? Those who would like to speak in a neutral capacity? Senator Sullivan. Senator Sullivan waives. And that will conclude our hearing on LB249. We'll move along to the last bill on the agenda today, LB278. I know Senator Harr was introducing a bill in another committee, so we'll take short break and then reconvene here in about five or ten minutes. That will give us a chance to find out if Senator Harr is waiting for closure or needs to wait for closure on his bill. Thank you. We'll be back in a few minutes, short break. [LB249]

BREAK

SENATOR HARR: Thank you, Chairman Gloor and members of the Revenue Committee. I apologize for being late. I had another bill and I need to apologize because it's a scope of practice bill, too, so, never fun. My name is Burke Harr, H-a-r-r. I'm a State Senator from Legislative District 8. Today, I'm introducing LB278. LB278 is a bill that has been before this committee in the past, and even was introduced to General File on one occasion, and would make a simple change to state law. In 2002, a tax on the washing and waxing of motor vehicles was enacted during the budget crisis. It is generally acknowledged that this was meant to be a short-term fiscal fix that would

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generate millions of dollars for a state that was struggling financially. The short-term fix is now a 12-year-old fix. LB278 would end this fiscal fix by providing a sales tax exemption for motor vehicle washing and cleaning services, including the use of coin-operated machines. Repealing the action taken in 2002 would follow the repeal of other service taxes enacted in the 2002 fiscal crisis, such as the tax on home remodeling. I believe now, it is now time to move on to the repeal of this car cleaning tax as well. Overall the money brought in from the car cleaning tax is relatively small, about two million dollars, or one-tenth percent of the total state budget. There are several car wash owners who will follow me today and will make the case as to why it is time to repeal this temporary sales tax. For the record, I do have another bill. I'll sit here, but I may not be able to close because I might have to go testify on my other bill. And with that, I would entertain any questions. [LB278]

SENATOR GLOOR: Appreciate the explanation. We certainly understand. Are there any questions right now for Senator Harr? Seeing none, thank you. [LB278]

SENATOR HARR: Thank you, Chairman Gloor. [LB278]

SENATOR GLOOR: We'll start with proponents for this bill. Good afternoon. [LB278]

ANDREW DAVIS: Good afternoon, Chairman Gloor and members of the committee. My name is Andy Davis, A-n-d-y D-a-v-i-s, and I am the co-owner of Mojo's Full Service Car Wash and Detail Center in Omaha. I'm also an attorney licensed to practice in both Nebraska and California. I want to thank Senator Harr for introducing this bill, and I want to thank the entire committee for your time and consideration this afternoon. I encourage each of you to support LB278 because this is environmentally friendly legislation. At Mojo's Car Wash, we're about to celebrate our third anniversary. As a brand new, locally owned, start-up company, where we've created thirty-one brand new jobs in the state of Nebraska. But we are most proud of the fact that we recycle 85 percent of the water that we use to clean cars at Mojo's. We are certified members of the International Car Wash Association Water Savers Program. And when we were new construction going through our construction phase in 2002, we invested extra capital up-front to install our own water reclean tanks and install our own water filtration and treatment system that allows us to have this water saver certification. Now we did this, not because of any federal, state or local mandate, we did it because it is the right thing to do, and it is right to be good environmental stewards in the car wash industry. That's precisely the mission of Mojo's Full Service Car Wash. And the way I'd like to explain the benefits of recycled water to our customers is simple. When you come to Mojo's and you pull into our car wash tunnel, and you're getting that first layer of dirt and sand, and especially this time of year, salt, off of your car, well, you don't need to use drinking water. You can use gray water and combined with our soap and our equipment, your car is going to get just as clean as if you used fresh water. So we want to encourage customers not to wash cars in their driveways, but to come to professional car washes

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where we're going to have control over both the volume of water that we use and where that water ends up. According to the International Car Wash Association, the average person washing their car at home, for example, is going to use...they turn on the hose, and they will use approximately sixty gallons of fresh water every five minutes that that hose is running. Now, I don't know about you, but when I wash my car at home it takes me twenty, thirty minutes. So with that hose running, I could easily use three hundred gallons of fresh water to wash one car. But when you come to Mojo's, we're going to use about forty gallons of water and remember, thirty-four of those forty gallons recycled gray water. So LB278 is environmentally friendly legislation because it encourages all Nebraskans to go to professional car washes where water will be used most efficiently and disposed of most appropriately, and in the case of Mojo's, that water is going to be recycled. This is sound public policy that benefits not just people in our community in Omaha, but communities in Benkelman, Alliance, Valentine, throughout our state. Encourage consumers to buy professional car washes, that's precisely what LB278 does. And again, I want to thank Senator Harr for introducing this legislation, and I thank the committee for your time and consideration. [LB278]

SENATOR GLOOR: Thank you, Mr. Davis. So I think your rationale must be, although I didn't hear you say it, that the intent of what you would expect from the removal of the sales tax is that it will change pricing that will entice more people to come to have their cars washed professionally? [LB278]

ANDREW DAVIS: I think it's a key incentive, Mr. Chairman. Car washes will be cheaper if they're not taxed, less money out of consumer's pocket. More reason to put down that garden hose in your driveway and go to a professional car wash. [LB278]

SENATOR GLOOR: Do you think it will be a large enough reduction in that expense that I'll be putting in one quarter less to get my car washed from a coin-operated machine? It's not a huge amount of money so I'm trying to figure out here if it's going to make enough of a difference to put car washes in a position to reduce prices. [LB278]

ANDREW DAVIS: Well, I think...Mr. Chairman, and that's an excellent question and a very fair point. I think we have to consider consumers across the spectrum, especially low-income consumers. And while a dollar may not seem like a big deal, when we're talking about maybe getting your car washed every week or more this time of year, those dollars can add up. And I would respectfully suggest, yes, most definitely, LB278 will encourage even lower-income families, even if it's just saving a dollar, put down that garden hose, go to a professional car wash, spend the money there, you will no longer be taxed. [LB278]

SENATOR GLOOR: Okay. Other questions? Seeing none, thank you. [LB278]

ANDREW DAVIS: Thank you all, so much. [LB278]

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SENATOR GLOOR: Next proponent. [LB278]

KEITH FICKENSCHER: Senator Gloor and members of the committee, my name is Keith Fickenscher, K-e-i-t-h F-i-c-k-e-n-s-c-h-e-r. Along with my wife and my son, Aaron, we own Southside Carwash at 48th and Highway 2. We've had it since 1990. The...and I've actually been in car washing since the mid-'70s. The key issue for me for a car wash is that we produce a product. That product is a clean car and other manufacturers who produce a product do not have to pay sales tax on the inputs to that product, the raw steel, the raw whatever. They don't have to pay sales tax. They, obviously, on the sale of that product, it's taxed and the state gets its tax. We, on the other hand, have to pay sales tax on water, on electricity to run the pumps, on natural gas to heat the water, on water softener, salt to soften the water, all of these inputs that we use to produce a clean car are taxed. And then we sell the product to the consumer and we pay tax on every sale. The inequity of that is particularly vivid to us because at our Carwash at 48th and Highway 2, we also fill propane bottles. So we have a bulk propane tank there and the propane we buy from the local supplier for resale is not taxed, but when we sell it to you to put it on your grill at home, it's taxed, and we remit that tax to the state. So, every one of our inputs at the Carwash that produce a clean car is taxed twice. It's taxed when we buy it and it's taxed when we sell it. And the inequity of that is enormous. I mean, it's just stark. And I would agree with Mr. Davis that in our case at least, we would reduce the price of a car wash because I've been in it long enough to remember when we did not have the sales tax and when it came on we, in that time, we raised the price a quarter for a four-minute wash. And so, that was the effect then and I'm sure we would reduce the price at least that much now on the self-serve washes. If anyone has any questions. [LB278]

SENATOR GLOOR: Any questions for Mr. Fickenscher? Senator Sullivan. [LB278]

SENATOR SULLIVAN: Thank you, Senator Gloor. Just to clarify. So, are you...is your business unique in that we actually tax your input? [LB278]

KEITH FICKENSCHER: I think if you look at it from the perspective of our finished product is a clean car that you buy from us, it's unique because all of our inputs to produce that clean car are taxed, the water, the sewer, the electricity, the natural gas, all of that. Now, when we buy a new pump to fix the one that wore out, that's taxed and that's fair. But that isn't really part of the manufacturing process that goes into producing a clean wash for you and that's what I object to is that those inputs are taxed twice. [LB278]

SENATOR SULLIVAN: Thank you. [LB278]

KEITH FICKENSCHER: Thank you. [LB278]

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SENATOR GLOOR: Other questions? Seeing none, thank you, Keith. [LB278]

KEITH FICKENSCHER: Thank you, Senator. [LB278]

SENATOR GLOOR: Other proponents? Good afternoon. [LB278]

JOHN HOFMEISTER: (Exhibit 1) Good afternoon, Chairman Gloor and members of the Revenue Committee. My name is John Hofmeister, that's H-o-f-m-e-i-s-t-e-r. I'm here today to testify in favor of LB278. I'm an Omaha native. I've been born and raised in midtown Omaha my whole life. I've had the privilege of not only being able to go to school there the entire time, I've also been able to work there as well. I've been working since...as laws, I was legal allowed to work. I put myself through college while working full time to get a business degree. I wanted to be a manager and operator, maybe someday an owner like some of my colleagues. I've been working in the car wash industry for over a decade now. I actually run a Russell Speeder's Car Wash across the street from the Nebraska Research Center in midtown. I've had the opportunity to witness countless number of our teammates start out as entry level positions and they moved from there to do things such as business owners, I've seen architects, automotive mechanics, and my wife. My wife actually...I learned last night it's not seven years, it was nine years of the entry level car wash, so I just want to go on record saying it was definitely nine years, she did nine years, but she became a teacher and she stayed local. She's a local...she works at Morton. She does fifth and sixth grade math. So it's really neat to see those success stories, especially, you know, from my perspective from my wife. Passing LB278 would greatly help support our community entry-level positions. With a minimum wage increase in the 2015 year and subsequently in the 2016 year, it makes it really hard and has a limitation for my ability to be the best mentor that I can be, that we can be, and as a business and a community can be. It is more evident to me than ever that the youth of our society needs nurturing and guidance. Taking training and mentoring seriously and investing in it in entry-level positions, it isn't something that can be optional for businesses. It's something that we really have to do. We have to nurture the young people in entry-level positions so they can go out and help stimulate our economy. Economic research has shown that the higher minimum wage causes a loss in entry-level jobs. The reason is simple. When costs increase, especially in the car wash business where labor is our number one expense, it's near impossible to absorb that cost and to maintain a full staff of mentored and trained people properly, it is very difficult. Inevitably, the action that's taken is usually just to do more with less. And sometimes you have to sort to automation as well. You have no choice but to resort to some things being automated versus being able to pay somebody to actually be there. LB278 helps invest in people and stimulate our economy. It's not only good for entry-level positions but it's helpful to small businesses as well. Being able to reduce costs to consumers will further help stimulate the economy and economic growth. Being able to stand behind what is said is a very powerful

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message. I think standing behind LB278 is not only good for the entry-level workers, but small businesses as well. It's good for the entire community and its successful longevity. I really appreciate your guys' time today in letting me express my opinions to LB278. And I do hope it's something that you do strongly consider because I do think the entry-level positions and the youth of our society really needs to be set up to win for the real long term. And I'm open to any questions that anybody may have. [LB278]

SENATOR GLOOR: Thank you, Mr. Hofmeister. Are there any questions? I don't see any. Thank you. [LB278]

JOHN HOFMEISTER: Thank you. [LB278]

SENATOR GLOOR: And I would say that we've had a lot of hearings this week, you've got the best shirt of anybody that's testified. (Laughter) [LB278]

JOHN HOFMEISTER: Thank you so much. [LB278]

SENATOR GLOOR: Good looking shirt. Good afternoon. [LB278]

MARK WHITEHEAD: Good afternoon, Senator Gloor and members of the Revenue Committee. Appreciate the opportunity to speak before you and my name is Mark Whitehead. It's W-h-i-t-e-h-e-a-d. I represent Whitehead Oil Company here in Lincoln, owner of eight car washes in Lincoln and around the Lincoln area. I also bring a broader perspective as well and officially, but just more as a matter of background as well, past president of the Petroleum Marketers Association...excuse me, Nebraska Petroleum Marketers Association. And I think Tim sent a letter...in a letter for that state association in support of it. No longer on that board but am on the executive committee for Petroleum Marketers Association of America, which is the national association. And I've got...so I've got a pretty broad sense from that industry. I've also had the opportunity to serve on the Environmental Quality Council for the state of Nebraska for a period of about twelve years and also served as past chairman of that committee. So, I also can reiterate some of those perspectives as it relates to water quality issues that were mentioned in the first testimony. We got some car washes that reclean, some that don't but even on a worse case scenario that doesn't, far less water is used in the process of going through an automated system than somebody with a hose and a bucket in the driveway. Plus, every drop of water that goes through, of course, goes through the sanitary system as opposed on the straight runoff and the rest of that. So from an environmental perspective, I can reiterate those components. As an effect on our business, I want to be a little bit cautious because part of this, the way our industry is set up, makes it credibly difficult to pass this on to the consumer. If you've been to a U-Stop or a convenience store sort of a setting, the paradigm has always been round numbers. And whether it's feeding a dollar into the bill reader at the acceptor, whether or not it's adding a dollar or four dollars, hopefully, to your bill at the gasoline dispenser,

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or what have you, this is...this is, obviously, a scenario that doesn't directly get passed on to the consumer but, of course, is a cost of overhead to the consumer that does affect the overall value that the consumer gets. So, from that perspective, I think, you know, from both those two perspectives that I had mentioned to you earlier, I think that, number one, to encourage people to do the environmentally responsible thing in terms of using an automated system as well as ease of convenience and transparency to the consumer, and as you had indicated earlier, has been said that the economic impact is not a dramatic one to the state of Nebraska. We think this is a bill worth supporting. I'd be glad to answer any kind of questions. [LB278]

SENATOR GLOOR: Thank you. Are there any questions? Seeing none, thank you, Mr. Whitehead, and thank you for your reasonable explanation of the impact on consumers. That was a...I appreciate that explanation. Other proponents? The microphone is yours. [LB278]

KEVIN MATTHEWS: (Exhibit 2) Yes, sir. Good morning, Chairman Gloor and members of the Revenue Committee. My name is Kevin Matthews, last name is spelled M-a-t-t-h-e-w-s. I'm an owner and operator of a commercial car wash facility in Bellevue, Nebraska, and I'm here today in support of LB278 that, if passed, would put an end to sales tax on vehicle cleaning services. I started off as a front-line associate with Russell Speeders Car Wash four short years ago. And today, I'm a managing partner. We recognize your committee's consideration to reexamine the vehicle cleaning service tax and we appreciate the opportunity to express our views with regard to its tax. Our state should repeal its current sales tax on vehicle cleaning originally imposed as a temporary tax during the budgetary crisis. This tax hurts lower income consumers, affects environmental use of water and limits its safety component. Let me touch on the safety component for a moment. On my way into the building today, I couldn't help but notice as a car wash owner, two out of three vehicles on the lot had their visibility obstructed. And this is due to the magnesium chloride that are put down on the streets. I encourage each member to take a look at every car today when you walk out and ask yourself, is this safe to drive on the roads this way? Today's conversation may be forgotten, but you won't forget your personal safety. This tax punishes lower-income consumers. When looking at Bellevue, for instance, it's a bedroom community to Omaha. Many of my customers are retired Air Force, students, low- to middle-income working families. If there's any tax reduction that we can feel good about, it's one that will eliminate tax that impacts lower-income people. A consideration for the legislator's support of LB278 to end the sale tax will lift the impact on taxpayers and restore the faith that was enacted as a temporary sales tax as it was appointed during a budgetary crisis. The legislator will be credited with giving something back to the Nebraskans. Why would we want to wait? Thank you for caring about our industry, our customers, and more importantly, our environment. [LB278]

SENATOR GLOOR: Thank you, Mr. Matthews, and thank you for the safety reminder

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on headlights and taillights. I'd be one of those nerds that uses a squeegee on his headlights and taillights...(Laughter) [LB278]

KEVIN MATTHEWS: Yes, sir. Yes, sir. [LB278]

SENATOR GLOOR: ...because I agree with you. [LB278]

KEVIN MATTHEWS: Yes, sir. And then, not to mention the license plates. You know, by state law they need to be visible for the state troopers and police officers. [LB278]

SENATOR GLOOR: Ah-ha. Okay. That's probably less a priority for me. (Laughter) It's a long drive between here and... [LB278]

KEVIN MATTHEWS: You said it, I didn't. (Laughter) [LB278]

SENATOR GLOOR: Okay. My problem, not yours. Any other questions for Mr. Matthews? Seeing none, thank you. [LB278]

KEVIN MATTHEWS: Thank you for your time. [LB278]

SENATOR GLOOR: Good afternoon. [LB278]

PATRICK SHANNON: (Exhibit 3) Chairman Gloor, members of the Revenue Committee, a long time since I've seen you guys. I am here today with a couple of different hats on. All right. I'm Patrick Shannon, S-h-a-n-n-o-n, and today I'm here as president of the Heartland Car Wash Association. We represent car wash owners across an eight-state area and you can see the states we represent. I am also a car wash owner here in Nebraska. I own self-serve car washes under the name Big Johns Car Wash. Okay. I'm here to testify in support of Senator Harr's LB278. There are plenty of people here today testifying that are reminding senators of the promise made in 2002 that this tax would be temporary. Okay. Responding to Senator Sullivan's question, yes, this is a double taxation situation. It was temporary. We stepped up as an industry and helped the state when they were in need of funds, but every single thing, every soap, every wax, on the input side of our business, is taxed. And so, this represents a double taxation that this industry has borne now for 13 years. So, our truck washes are also experiencing the same problem with interstate truckers. They have the choice, they don't have to wash here in Nebraska. They can wash in Colorado. They can wash in Iowa. Okay. So, we're driving business out of state because the price of that tax on a truck wash is enough of a difference that they're seeing drops in revenues since this tax came about. All right. Orders at manufacturers last year when the bill came up, we had Hammel Manufacturing, a Nebraska manufacturer of car wash parts here, and they testified about the fact that car wash owners are not reordering parts, they're not ordering new equipment because ever since the tax came, they don't have the profits to

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reinvest in their businesses. So these are affects of the double taxation situation that the industry has borne. But, I don't want to spend my time on this part of it. I want to focus on a different part of the problem here today and that is that this tax has just been in place too long and there's some ill effects that you need to know about that are going on. The car wash industry is really broken into three parts. You've got your gas station car washes, you've got your stand-alone tunnels and automatics, and then, you've got your self-serve people. Okay. The self-serves being the ones where you walk in and put a quarter in and you grab a high-pressure hose. Okay. At gas stations, a lot of times a car wash is an impulse purchase. All right. You're in there, you're getting gas, oh, what the heck, I'll drive through the car wash, you know. It's an impulse purchase, but there's a cashier there and they can collect the sales tax. All right. At the tunnels, and the other automatic washes, fairly similar where they either have an attendant or they have an automatic attendant where there's an opportunity because you're paying with credit card to collect that sales tax. At the self-serves, these are unmanned and they don't have the opportunity to collect the sales tax. So like the Chairman referenced at the beginning, they went up a quarter to try to cover the tax, but over the years, it isn't covering it. And at two dollars, the difference between two dollars and two and a quarter in a consumer's mind, no one has wanted to make that jump. So, our car washes are literally going out of business right now. In Bellevue alone over the last three years, we've lost five of the ten self-serve car washes we had. Owners are going out of business. The six or seven hundred dollars we're giving the state every month in sales tax is enough to make a difference about whether we survive and whether we can keep our self-serve car washes in our neighborhoods. But we're losing them and we're seeing it across the state. It's not just Bellevue where we've lost half of our car washes. And it's just in the self-serve industry. Obviously, it doesn't impact the other industries, you know, the gas station or the tunnels or automatics as drastically, but the self-serves are the ones getting wiped out right now. And so, I see this as a crisis. I think it's something that we need to do, something about urgently. This is a very...a bill with a very small fiscal note and I think something that could be acted on. This committee has responded favorably. We almost got out of here unanimously last time. And I would hope that we can get out of here unanimously this time, and that you guys can support this because just asking an industry to keep bearing double taxation is not fair and equitable to us, and we just can't take it anymore. I would also like to ask not only for your vote in getting this bill passed, but I'd like you all to sign on as cosponsors and help us make sure this bill goes all the way. Thank you. [LB278]

SENATOR GLOOR: Thank you, Mr. Shannon. Are there any questions? Senator Sullivan. [LB278]

SENATOR SULLIVAN: Thank you, Senator Gloor. Thank you, Mr. Shannon. You alluded to it, but what's going on in neighboring states? [LB278]

PATRICK SHANNON: In neighboring states, two years ago we were able to get this tax

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repealed in Iowa. And that was the last state around us that I'm aware of that has the double taxation situation. This is one of these things where everyone kind of looked to us to do this when everyone was having financial problems. And so, like I said, Iowa repealed theirs two years ago and I believe that was the last state around us that still taxed car washes. [LB278]

SENATOR SULLIVAN: Thank you. [LB278]

SENATOR GLOOR: Other questions? Senator Brasch. [LB278]

SENATOR BRASCH: Thank you, Chairman Gloor, and thank you for your testimony today. I had a constituent that couldn't be here that sent in a letter explaining that the soap is taxed, you know, all of the things like that, that in the hardship there. Being a rural senator, generally what happened to the truck washes? There's such a shortage...did... [LB278]

PATRICK SHANNON: Well, with the truck washes, the price of a truck wash being fifteen or twenty dollars to wash a semi, okay... [LB278]

SENATOR BRASCH: At least. [LB278]

PATRICK SHANNON: ...the sales...yeah, the sales tax is a lot larger, okay. So, it's taking an impact on those, so our truck washes are telling us their revenues are down because the truck drivers rather than spend those two or three dollars in sales tax, they'll just drive on. They'll wash in Colorado. They'll wash in Iowa. I mean, they're going there anyway, so, yeah, they're not spending those dollars here just because of the tax sales tax making a difference in the price. [LB278]

SENATOR BRASCH: Very good. Thank you. I have no other question. [LB278]

PATRICK SHANNON: Thank you, ma'am. [LB278]

SENATOR GLOOR: Any other questions? Seeing none, thank you, Mr. Shannon. [LB278]

PATRICK SHANNON: Thank you, and please, everyone, get your car washed today. [LB278]

SENATOR GLOOR: Any other proponents? [LB278]

JEFF BALLENGER: I think, I might be the last one. Thank you. My name is Jeff Ballenger, B-a-l-l-e-n-g-e-r. I'm the owner of the Gorilla Car Washes and also Power Wash here in Lincoln, so I've got a Gorilla on 167th and Harrison Street and then got

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some Power Wash's here in town. What can be said that has not already been said. I got in the car wash business when I was 24 years old. I'm 49 now. I really appreciated what Senator Sullivan had to say about keeping multigenerational businesses going. My grandfather started in business in 1924. And so, I'm actually a third generation businessman, but he was in the auto parts business and if you ever shook his hands, they were real rough because he used to fill cells of batteries by hand. And I think what this bill is also about is making sure that we keep the entrepreneurial spirit alive in the upper Midwest. The Wall Street Journal recently had an article that when I started my business which would have been 1990, 12.6 percent of businesses were started in households of people 30 years of age and under. And right now, that number is 3.6 percent. And the reasoning that I feel that that's happening is because of a lot of the regulation, and a lot of the taxation, it's very, very challenging, and I was very encouraged to see some of the younger people here that were able to start businesses, but it's getting more and more challenging to start a business in America today. And every little bit helps. I couldn't have disagreed respectfully more of what the individual that talked about no tax cuts anywhere across the board. I can remember back in the early '80s, when the capital gains rate was cut, I believe that the amount of money that flew into the treasury was tripled. So, economic activity happens when taxes are lower. That's not a supposition, that's a fact. And some of those single moms that are realtors were able to sell more things because of the fact that more deals were being done with lower taxes. So, I see it when I work at my car washes. I still work the lines. I have self-serves. I have drive-through automatics. I have tunnels and I see the single mom come through in the van where the window will not open, so she actually opens the doors. You bet, that dollar makes a difference to her. When, you know, when you say ten dollars plus tax, when that tax isn't there, that makes a difference. So I'm here...I've been at this...and I do also remember when we did not have a tax and I would just ask you folks to...I'm sure some of you because of term limits were not here when the original promise was made that this was a temporary thing, but we would just ask that you honor the word that was given to us back in 2002, and repeal this tax. Thank you. And also thank you for serving. My dad was mayor of our town, and in our family, we really think a lot of public service. And boy did we get some interesting phone calls. (Laughter) Thank you. Any questions? [LB278]

SENATOR GLOOR: In this day and age, we get interesting e-mails too. (Laughter) Thank you, Mr. Ballenger. Are there any questions? Seeing none, thank you very much. [LB278]

JEFF BALLENGER: Thank you. [LB278]

SENATOR GLOOR: Any other proponents? Anybody in opposition? I'm sorry. Are you a proponent? [LB278]

BILL ALFORD: Mr. Chairman, members of the committee, my name is Bill Alford,

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A-I-f-o-r-d. I went in the car wash business in '65. In fact, I came down and testified against this temporary tax to be put in. My wife and I have a small Christian bookstore and when we buy books, we don't pay tax on what we're going to resell. So we have a reseller's license. Manufacturers have the same kind of a deal that any product that is purchased and incorporated in a finished product, you don't pay sales tax on the incoming merchandise. And so, it seems to me very unreasonable that we in the car wash business pay it on both ends. We pay for the water, the soap, the wax, the electricity, the gas that runs the heat, and I guess I'd like to suggest that if you're unwilling to release this from this, the final sales tax, why don't you give us an exemption on the incoming and be consistent with other industries that we get an exemption from paying sales tax on the water and the soap and the wax and our incoming expenses. I'm about wore out. Thank you. [LB278]

SENATOR GLOOR: Are there any questions for Mr. Alford? You certainly don't act like you're about wore out. [LB278]

JEFF BALLENGER: I can't hear you. [LB278]

SENATOR GLOOR: You certainly don't act like you're about wore out, so. [LB278]

JEFF BALLENGER: One day at a time. [LB278]

SENATOR GLOOR: (Exhibits 4-7) One day at a time. Other proponents? Anyone in opposition to this bill? Anyone in a neutral capacity other than the testifier we had earlier, Ms. Fry? We have some letters in support we'll read into the record: Mr. Robert Black, president of Super Wash; Robert Hallstrom on behalf of the Nebraska Federation of Independent Businesses; Mr. Brad McDonald, Blue Diamond Carwash; Mr. Tim Keigher on behalf of the Nebraska Petroleum Marketers. Mr. Keigher, your letter is addressed to Senator Brad Ashford as chairman of the Revenue Committee. That does a disservice to Senator Ashford who is a Congressman, (laughter) for what it's worth. It is addressed to me, though, I would say. And we would read those into the record so that those folks are recognized. And I believe Senator Harr said that he would be unable to close, and so that will end the hearing on LB278, and that would end the hearings for today. Thank you all for coming on a sunny day, but a cold day, nonetheless. [LB278]