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Revenue Committee
March 28, 2017

[LB233]

The Committee on Revenue met at 1:30 p.m. on Tuesday, March 28, 2017, in Room 1524 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on AM707 to LB233. Senators present: Jim Smith, Chairperson; Curt Friesen, Vice Chairperson; Lydia Brasch; Mike Groene; Burke Harr; Tyson Larson; Brett Lindstrom; and Paul Schumacher. Senators absent: None.

SENATOR SMITH: We're going to get started. This is an unusual hearing in that we're remaining in session, so that if there is a call of the house, I'm going to ask your forgiveness in advance that if there's a call of the house, we're going to just stand at ease so we can go cast our votes and then we'll come back and pick up the hearing as we left off. But welcome to the Revenue Committee public hearing. My name is Jim Smith, and I represent Legislative 14. Legislative District 14 is Sarpy County and I serve as the Chair of the committee. We have one bill that we will be taking up today and it's posted on the outside of the room. To facilitate today's proceedings, I would ask that you would turn off your cell phones or other electronic devices so that they would not interfere with the person testifying before us. If you're going to testify, please complete the green form and hand that to the committee clerk when you come up to testify. If you have written testimony or exhibits for the committee and would like those distributed, please hand those to the page to distribute. We will need 11 copies for all committee members and staff; and if you need assistance in making those copies, please let us know. We would be happy to help you with that. I did ask just a couple of minutes ago the number of people to show me the number of hands of the folks that are going to testify before us. There were not that many hands that went up, so we are going to use the light system with five minutes today. And so the green light will be on for four minutes and then it will turn to an amber color at which time I would ask that you would wrap up your testimony, but you do not have to take the full five minutes, of course. If you would like your position to be known but do not wish to testify, please sign the white form at the back of the room and it will be included in the official record. Let me introduce just very quickly to you, committee staff that's with us today. Mary Jane Egr Edson is not going to be joining us today and she is our legal counsel. And to my right is research analyst, Kay Bergquist, and then to my left is committee clerk, Krissa Delka. We do have some committee members that are on the floor and they're going to be joining us shortly, but I will just quickly introduce them this time around. Senator Tyson Larson will be at the far end of the table; Senator Mike Groene representing North Platte; Senator Brett Lindstrom from Omaha; Senator Curt Friesen will be joining us here shortly, he's from Henderson; Senator Lydia Brasch will be joining us shortly, she is from Bancroft; Senator Paul Schumacher from Columbus; and Senator Burke Harr representing Omaha. Our pages that are with us today, we have one page, Alexi Richmond from Milwaukee, Wisconsin. Alexi is studying political science at the University of Nebraska at Lincoln. So the way we're going to proceed today is I'm going to ask Kay Bergquist, who is our research analyst, to speak first and this is going to be somewhat of

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a rehearing of what could eventually become LB233. And I've asked Ms. Bergquist to begin with a procedural update of LB233, and then Ms. Bergquist will be followed by Senator Stinner, and Senator Stinner will be introducing AM707. [LB233]

KAY BERGQUIST: (Exhibits 1-3) All right. Different on this end of the table. My name is Kay Stilwell Bergquist, and that's K-a-y S-t-i-l-w-e-l-l, Bergquist is B-e-r-g-q-u-i-s-t, and Senator Smith has asked for a procedural update on what we're doing today. LB233, as introduced, is the Department of Revenue's technical bill. The Revenue Committee advanced LB233 to General File on January 26 with an 8-0 vote. During discussions that Senator Smith and Senator Stinner have been having, it was felt there was a need to have a bill to be used as a revenue and budget reconciliation mechanism and LB233 was chosen as that mechanism. Senator Stinner has added his name to LB233 and he has designated it as his personal priority bill. The provisions of LB233, as introduced, have been amended into LB217 which is the Revenue Committee's omnibus bill, and LB217 was advanced to General File on March 14 with a vote of 8-0. LB217 is a Revenue Committee priority bill. LB707 will be a floor amendment to LB233, and because it's new, Senator Smith and Senator Stinner felt there was an obligation to ensure that all contents of LB707 be given a public hearing. [LB233]

SENATOR SMITH: Very good. Thank you, Ms. Bergquist. No questions. Oh, I'm sorry, Senator Harr. [LB233]

SENATOR HARR: Do we have a fiscal note on this? Sorry to walk in late. [LB233]

KAY BERGQUIST: No, we do not have a fiscal note because according... [LB233]

SENATOR GROENE: We have an estimate. [LB233]

KAY BERGQUIST: ...we have an estimate and it is attached to your bill, Senator. [LB233]

SENATOR HARR: Yeah, well, is that this sheet here? [LB233]

KAY BERGQUIST: No, it's this one. That one. [LB233]

SENATOR SMITH: It says memorandum at the top. [LB233]

SENATOR HARR: And is this the...okay. All right. Thank you very much. I appreciate it. [LB233]

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KAY BERGQUIST: You are welcome. [LB233]

SENATOR SMITH: Thank you. And we now invite Senator Stinner, Chairman of the Appropriations Committee, to testify, and welcome. It's rare that we get a chance to have an Appropriations Chair in front of the Revenue Committee. [LB233]

SENATOR STINNER: Well, thank you, Senator Smith. Members of the Revenue Committee, for the record my name is John, J-o-h-n, Stinner, S-t-i-n-n-e-r. Rather than making a formal read presentation, I just wanted to kind of relay a little bit about a story that kind of starts with where we were at from the preliminary budget that we issued. At that time, if you remember or recall the fiscal status, we were about \$134 million short, which would have gone into where we would have looked to the rainy day fund to cover. That would have kept us above a \$400 million number. I think that would have kept the state in pretty good shape as far as a rainy day fund and looking forward into the future, would put us in decent financial shape that certainly would structurally balance...structural balance meaning receipts less disbursements were equal. Actually we only added \$20 million over the 3 percent reserve, so everything was kind of put together in a fashion that we had a pretty good budget. Well, since that time, we got another revenue forecast and that revenue forecast was down another \$150 million. So preliminarily, we started through a hearing process, we started through, you know, the second part of the appropriations; and I do want to thank the committee for giving me special favors because I was late in putting this together. I think as I proceeded to put the budget together and all the pieces that went, I said, I'm going to need some help from Revenue. And so, we kind of scrambled around and I've got three parts of this and I will tell you this, two of these parts are really close to my heart. I can tell you that the school readiness tax credit that was introduced by Senator Mello, I signed on that bill. I'm an early childhood fellow. I have a deep and fond caring about early childhood, early childhood development. And to put this on the list of things that will be not cut, but delayed. I just want to make you understand. And I just got the fiscal note yesterday and it's zero 2017-18 and then, of course, then in the second it's '18-19. So I'm probably really going to look for a one-year deal and that's \$21 million fiscal impact as it relates to that. The second one that's really near and dear to my heart is the Angel Tax Credit. I mean, I introduced it as a freshman and we increased it from \$3 million to \$4 million. I believe it's a great bill. I believe the School Readiness Credit is a great bill, but I'm willing to put that up and say, let's defer that for one year because budget needs to be balanced. Budget is a preference. And, of course, the last item is the personal property tax credit and that...the fiscal note on that is about \$16.2 (million), so it all adds up to about \$21.7 (million). I was hoping more toward the \$40 million, so I'm going to have to scramble around, but this is all part of the budget process, all trying to get structural balance, trying to get balance in the budget and still trying to leave a fairly robust cash reserve because I don't know what's coming next. And obviously, we have another Forecasting Board that meets after I get to the floor with this proposed budget. So I would recommend that we

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approve AM707 which will be an amendment to LB233 as part of a budget strategy. Thank you. [LB233]

SENATOR SMITH: Thank you, Senator Stinner. And you're familiar with this handout that we provided to the committee? [LB233]

SENATOR STINNER: Yeah, I just got the estimate actually yesterday, so. [LB233]

SENATOR SMITH: The second column in that chart that says General Fund Expenditures, is that the personal property tax in there? [LB233]

SENATOR STINNER: That is the personal property tax credit. And all I'm asking for is just for one year at this point even though my bill says two years, because if you see '17-18, zero and zero. So if you're mentally going through that, it's a calendar year basis. We're on a fiscal year, so it drops out that first year. [LB233]

SENATOR SMITH: Okay. Good. Senator Harr. [LB233]

SENATOR HARR: Thank you, Chairman Smith. So Angel Investment and the School Readiness Tax Credits seem like two tax credits that are working. How did you happen...and the personal property tax, right? That's something that helps all small businesses. How did you happen to choose that these three credits as opposed to the myriad of tax credits that were brought in, any of those that were brought in Senator Schumacher's LB373? [LB233]

SENATOR STINNER: I had a list of tax credits and items that I'd like to do and I passed them through the budget office and the budget office believed that these were not tax increases. [LB233]

SENATOR HARR: Explain that to me. [LB233]

SENATOR STINNER: I'm not sure I can explain it to you other than the fact that as you delay a credit, it was never there in the first place so, therefore, you're not decreasing. Now personal property tax, I think that there is differing opinions about that and I may end up hearing from the Governor's side saying that they are not...that that is not a preferred way to go. [LB233]

SENATOR HARR: So Angel Investment we had previously. It had a sunset on it, I believe. Is that correct? [LB233]

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SENATOR STINNER: I believe that is correct. [LB233]

SENATOR HARR: And then you introduced a bill that expanded the sunset to 2022. [LB233]

SENATOR STINNER: Increased it from \$3 million to \$4 million. I tried to get it to \$5 million, but ended up at \$4 million. [LB233]

SENATOR HARR: Yeah. [LB233]

SENATOR STINNER: And increased the sunset, yes. [LB233]

SENATOR HARR: Okay. So because you moved a sunset and increased the amount, it's not a tax cut according to the Governor's office? [LB233]

SENATOR STINNER: Every year somebody has to sign up for these credits and they have to qualify for the credits. Therefore, it is every year it starts over and over and over again. [LB233]

SENATOR HARR: And this is according to the Governor's office, budget office? [LB233]

SENATOR STINNER: This would be an acceptable method of gaining some revenue on the budget side without precipitating a tax increase. [LB233]

SENATOR HARR: Okay, and the personal property tax, what year was that passed, do you know? [LB233]

SENATOR STINNER: I think it was my first year, maybe the second year, last year. I think it went into effect last year. [LB233]

SENATOR HARR: Yeah. [LB233]

SENATOR STINNER: This would be the second year it's in effect. Twenty-six percent went to farm; 52 percent went to commercial; then railroads and public service had the rest of that. [LB233]

SENATOR HARR: So they're already collecting it, correct? [LB233]

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SENATOR STINNER: They are collecting it. [LB233]

SENATOR HARR: So again, how is that not a...and I'm confused as far as what's a tax increase... [LB233]

SENATOR STINNER: You would have to assume that that would be a tax increase and therefore the Governor is probably not going to like this. [LB233]

SENATOR HARR: Okay, and the School Readiness tax. [LB233]

SENATOR STINNER: That just came on the books last year. I think this is the very first year. [LB233]

SENATOR HARR: So January 1, right, is when you got started? [LB233]

SENATOR STINNER: I think so, yeah. This would be the second year. [LB233]

SENATOR HARR: Okay. Do you know how many schools... [LB233]

SENATOR STINNER: Don't have numbers on it yet. This is just estimates based on Fiscal. I don't think anybody really signed up for anything yet. I'm not sure even the forms are ready. I think the first year they estimated 450,000, if I remember right, from the fiscal note. This would be the second year of million six estimated, so I'm not sure that anybody has a real good handle on it. [LB233]

SENATOR HARR: And if I'm putting words in your mouth, I apologize, and maybe I am and maybe I'm not, but it seems to me we seem more concerned about what is and is not a tax increase instead of looking at what tax credits do and do not work and which ones we can afford to have as far as to which ones we can't afford to have anymore. [LB233]

SENATOR STINNER: I think there's some of that going on. Certainly, we have two other tax credits that we're taking a look at, one is historical tax credit, job tax credit, those would be other ones that might be on that list. [LB233]

SENATOR HARR: Okay, and then if you could answer me this, because a little history on this. This is, we passed out the bill about which this is being amended to and it's rather noncontroversial. I think everyone would agree, it was a technical cleanup bill. And now we're

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putting an amendment on there that is taking money away from individuals, so it makes it somewhat more controversial and I believe you made your personal priority, is that correct? [LB233]

SENATOR STINNER: Yes, I did. [LB233]

SENATOR HARR: Okay. This money will not go to pay for other legislation, but will go to General Fund to pay down our debt, is that correct? [LB233]

SENATOR STINNER: It will go down as a credit to the General Fund because we will not be sending it out as a reduction of our revenue. [LB233]

SENATOR HARR: Okay. You have no intent for this to be attached to another bill to pay for some sort of cuts in other spending. [LB233]

SENATOR STINNER: No, this is the budget bill. [LB233]

SENATOR HARR: Okay. I appreciate that. Thank you. And welcome to your Nebraska Revenue Committee. [LB233]

SENATOR STINNER: Okay. [LB233]

SENATOR SMITH: Senator Groene. [LB233]

SENATOR GROENE: Thank you, Mr. Chairman. Why...let me finish, but my question is, why can't we do it '17-18? I would assume that the property...the Property Tax Credit, we're budgeted what's happening now in April and May and we pay half of our taxes and there's a credit on there. That's in this fiscal year because it's before July 1. The next fiscal year, it will be April and May which will be in '17-18, so why can't we do it in '17-18? [LB233]

SENATOR STINNER: That is something you'll have to take up with the person who put this together because you and I see it the same way, but I don't know precisely why they... [LB233]

SENATOR GROENE: And also the Angel Investment Tax, it started January 1. Somebody is making the decision now between January 1 and now, and the School Readiness Tax Credit also is making a decision. They do not have a credit yet because they haven't done their taxes for next year, so why can't we do those... [LB233]

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SENATOR STINNER: Why can't we use those in '17-18? I just got this yesterday and so I didn't have a chance to go back but what I was understanding, the Fiscal agent told me was, they're filing on a calendar basis, we're on a fiscal year basis, therefore, it almost goes a full year before the impact of those changes are made. [LB233]

SENATOR GROENE: But the property taxes will be April and May next year. [LB233]

SENATOR STINNER: Yes. [LB233]

SENATOR GROENE: That's before our fiscal year is over in July. [LB233]

SENATOR STINNER: The Angel Tax Credit is oversubscribed first day and that's, I think, January 1, 2, 3, somewhere in there. [LB233]

SENATOR GROENE: So they already took those. [LB233]

SENATOR STINNER: So those are gone for '16-17, but are they gone for '17-18? That would be a question. [LB233]

SENATOR GROENE: Thank you. [LB233]

SENATOR STINNER: I don't know the answer to... [LB233]

SENATOR GROENE: I mean, that's what you apparently thought we could do, otherwise you wouldn't have thought we...and '18, '19, '20 (inaudible). [LB233]

SENATOR STINNER: It was...I was counting on a little over \$40 million to go into the puzzle to balance our budget. [LB233]

SENATOR GROENE: Then devil's advocate, somebody will say, why didn't you just take it off the Property Tax Credit Fund? I do not want you to do it. I will fight you to do that, that would be... [LB233]

SENATOR STINNER: You know what, I do want to make this statement. I haven't met any constituent yet that told me they want a tax increase, so sometimes we get a little carried away I think with our rhetoric saying, the Governor doesn't want a tax increase. I don't want a tax increase either, so I'm being a little bit careful about what I select and how we do this. Now is

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there other things we can look at? There's a possibility of that, but I just want to make that clear that it's not just the Governor. I haven't met anybody that says, oh, raise my taxes. In fact, when we talked about...where was it, specialized exemptions on sales tax. You had people lined up. I mean, we can talk about that kind of stuff but the minute that we try to touch it, it disintegrates, so. [LB233]

SENATOR SMITH: Senator Schumacher has a question and then we'll come back to you. [LB233]

SENATOR SCHUMACHER: Thank you, Chairman Smith. You said earlier that you were hoping that the numbers would come out closer to \$40 million. [LB233]

SENATOR STINNER: That was what I was hoping, yes. [LB233]

SENATOR SCHUMACHER: So if...I'm not sure the procedure, if some other tax credits that have yet to be applied for, have to be approved, or were you to bring it closer to \$40 million, that would be a good thing. [LB233]

SENATOR STINNER: I would definitely like that, yes. [LB233]

SENATOR SCHUMACHER: And the purpose of this bill is budget related rather than...I mean, to balance the budget. [LB233]

SENATOR STINNER: Yes, absolutely. [LB233]

SENATOR SCHUMACHER: And what do you see is the criteria, the difference between a tax increase and a tax recovery of some kind, whatever you would call it? [LB233]

SENATOR STINNER: Well, on the credits you would have to apply for the credits on an annual basis or whatever basis, so there to be claimed as opposed to somebody in the business that is filing every year for a refund of something which is what we have in the personal property tax. That's...that would be my definition, that by taking it away from somebody that is already in that mode of getting a refund or an exemption, it would actually in effect increase the impact economically on it. [LB233]

SENATOR SCHUMACHER: Well, we've got this one thing we passed a few years ago that said every year we're going to inflation adjust the taxes. And if we were to stop that, we would not be

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increasing the taxes, we would just not be adjusting them lower. So is that a tax increase or a stoppage of a tax decrease? (Laughter) [LB233]

SENATOR STINNER: Shoot, we must have talked about this quite a little bit. That's really hard for me to...it is in the law that we would adjust and obviously a benefit would be derived to buy the inflation...by moving the brackets to inflation. That benefit would not accrue to somebody if you didn't have that in place, so is that then an increase in taxes relative to what it should be? One would say, yeah, from the debit and credit side. [LB233]

SENATOR SCHUMACHER: Well, then let's take it one step farther. If you...you have to claim your standard deductions or you have to claim your itemized deductions in order to reduce your income to get a reduced taxes. So if we were to say those can no longer be claimed, is that an increase or...? [LB233]

SENATOR STINNER: I would claim that as an increase. [LB233]

SENATOR SCHUMACHER: You see where I'm getting. We're dealing with a lot of semantics and at the same time we're dealing with real money in the budget. [LB233]

SENATOR STINNER: Yes. I think what you have to do is what's the net effect of what you've done? And the net effect of suspending a credit might be that people can apply for that credit for that year, but certainly my intention is to bring it right back. It's just sunsetted, bring it right back, because these are good bills. These are great bills. [LB233]

SENATOR SCHUMACHER: But is that a realistic intention in that we know we're deferring a lot of expenses in the future. We know that there's a good chance that there may be unexpected bills or maybe a prison lawsuit or who knows what out there. And so the odds are these are not going to be able to be brought back really quick unless there's some unexpected surge in revenues. [LB233]

SENATOR STINNER: I have looked...I have gone back and looked at the last two recessions that we've had, semi-recession, I guess. The dot-com bubble wasn't a recession because it was only three-quarters, so it didn't quite qualify. But in all cases, we actually funneled out within a two to three-year period of time. Now we're in second, third year of this thing...or moved into the third year. We could cycle back out and in all cases it was like 6.6 percent increase in revenue and a 5.5 percent revenue. And I can get those numbers. I actually went back and computed this out and then when we look at...we look at what we have here, which is our financial status, and I believe that's showing 5...excuse me, it shows about 5.5, 5.9, is that a realistic number. Well, if

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it's only 4.5, we're still in pretty good shape. So if I use 4.5 as the out-years the next biennium, I think we're going to be in okay shape. [LB233]

SENATOR SCHUMACHER: So one final question. [LB233]

SENATOR STINNER: If history repeats itself. [LB233]

SENATOR SCHUMACHER: If history repeats. We went...along the line of one our expectations for a bounce back are, we went from two years ago feeling pretty good about things that we were up to our cash reserve of two months' revenue, and then all of a sudden it was like lightning struck and we were cooked. Have you been able to determine what was the cause of this sudden downturn in our revenue picture? [LB233]

SENATOR STINNER: I could not point to a specific episode, like a housing crisis, like a dot-com bubble. I do not have...I just cannot point to anything other than commodity prices and what has happened from that side and the cascading effect down through business that obviously we're feeling. But, if I do look back, there are two elements that are larger, obvious ones, and that's the variability of corporate tax. I mean, we all know that moves up and down, but that has been significantly down even though it's a small number. The other one is sales tax refunds and based on sales tax refunds right now, we're probably annualized a little over \$100 million impact in sales tax refunds, mostly Advantage Act. [LB233]

SENATOR SCHUMACHER: And how much due the Advantage Act? [LB233]

SENATOR STINNER: I'd have to go back and it's the old LB775, I believe is what it was plus the Advantage Act. I get a report on that every month and I actually go back and it's a six-month pull forward on that what they estimate it to be and I just annualized what that six months is. [LB233]

SENATOR SCHUMACHER: But that was a substantial number. [LB233]

SENATOR STINNER: And it keeps bumping up, so. [LB233]

SENATOR SCHUMACHER: And that's a substantial number. [LB233]

SENATOR STINNER: It's annualized to be a hundred million. [LB233]

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SENATOR SCHUMACHER: Thank you. [LB233]

SENATOR SMITH: Senator Groene. [LB233]

SENATOR GROENE: Is that also included--thank you, Chairman--included these sales tax back to these entertainment districts, these arenas? That's a pretty good chunk of money too. [LB233]

SENATOR STINNER: You know, that actually goes into a cash fund and certainly the arenas get a benefit, but then there's an additional...I think it's 30 percent over above that it gets back into a civic fund, is what they call it. [LB233]

SENATOR GROENE: I understand, but that's also loss of sales tax revenue to the state. [LB233]

SENATOR STINNER: Well, yes. [LB233]

SENATOR GROENE: So is that in that \$100 million or you're just talking about the Advantage Act? [LB233]

SENATOR STINNER: No, no, that's a different...I think that's a difference. I don't think it's accounted for that way. I don't know that. I can find that out. It might be. It might be. [LB233]

SENATOR GROENE: A pretty good chunk of money too. Then have you looked at Senator Schumacher's LB373? There's a couple in there that look pretty like, low-hanging fruit that even the business community didn't complain about. [LB233]

SENATOR STINNER: I have looked at every possibility. [LB233]

SENATOR GROENE: Then you didn't like any of those and Senator Schumacher's? [LB233]

SENATOR STINNER: A lot of them didn't fit the criteria. [LB233]

SENATOR GROENE: Wasn't quick enough reacting or...? [LB233]

SENATOR STINNER: Well, most of it was a net effect on the income was positive or negative. It had a tax aspect to it. Let's put it that way. [LB233]

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SENATOR GROENE: It was either positive or negative. Now you sound like (inaudible). [LB233]

SENATOR SMITH: Senator Harr. [LB233]

SENATOR STINNER: Depends on which side you're on. [LB233]

SENATOR HARR: Thank you, Mr. Chairman. So you have this criteria. Who put this amendment together for you? [LB233]

SENATOR STINNER: Actually M.J. put the amendment together. [LB233]

SENATOR HARR: Okay, so when you had said earlier you talked to the person who put this together, that would be M.J.? [LB233]

SENATOR STINNER: Uh-huh. [LB233]

SENATOR HARR: Okay. And again...I'll come back to that. We put more sunsets on bills so that they have a chance to...we have, I call it, intelligent policymaking. There is an action, a consequence, and an analysis, and then when the sunset done, we look and say, hey, we like that or, no, we don't. Well, we have a sunset on the Angel Investment of 2022. We have put a moratorium on it for two years which really means it will be back in for a year and then the next year we're going to have to vote to determine whether we want to continue it or not. Having no real data to show us whether it's a good program or not, or at least recent data, my question is, would you think it would be good in your amendment to add an extension of the sunset? [LB233]

SENATOR STINNER: I'd have to analyze that, but if you look at the bill that I put forward that included the increase, there is specific criteria that they have to dig...I mean the data should be there for us to make prudent decisions or track it fairly close. [LB233]

SENATOR HARR: Well, but we're going to have to cut short that data by two years, because we're not going to have two years to earn that moratorium in there. [LB233]

SENATOR STINNER: If I only do it for one year because of the way this is set up, I'd probably just do it for one year. [LB233]

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SENATOR HARR: Okay. [LB233]

SENATOR STINNER: I want to be back out in...back out at least in 1920. [LB233]

SENATOR HARR: Okay. And you read the SRI report? [LB233]

SENATOR STINNER: Yes, I have. [LB233]

SENATOR HARR: And that was commissioned by the Governor's office? [LB233]

SENATOR STINNER: I think the Angel Tax Credit is absolutely critical. [LB233]

SENATOR HARR: Okay. So is this penny-wise, pound-foolish? [LB233]

SENATOR STINNER: You could say that unless you prioritized balancing the budget over some of the tax credits that are out there, these two. [LB233]

SENATOR HARR: Instead of looking at what is this crazy, you have to apply for it every year or not, wouldn't a better way be to look at these, which credits are or are not working, which are carrying their weight? [LB233]

SENATOR STINNER: I think we do look at that every year. Don't we get a revenue report and we're supposed to be gleaning information from that? I know that's a bad summary. [LB233]

SENATOR HARR: Here's the crazy thing. I think you guys do an appropriations with bills every year. We go...once we pass a tax credit, we go years without looking at them. Probably the only time we ever look at it is when there is a sunset on it. We had Senator Schumacher bring what I called an appropriations bill last week to look at the tax credits, and the crazy thing was, we got the fiscal note, we had no idea what each program cost. All they provided us was a total sum. So we have no idea whether to say, hey, now Angel Investment we probably know how much it costs, and we can use some data on it. But we had no idea how much personal property exemption cost. We have no idea how much Nebraska Advantage cost, LB775 cost. A lot of these we had no idea and so we couldn't really analyze, do a cost-benefit analysis on it because those weren't provided to us. And, you know, I, gosh darn it, think these are three of our better tax credits out there and I have a real problem cutting these when there are some out there that I think probably don't carry as much water, dollar for dollar than these. And I'd rather look at a dollar-for-dollar cost-benefit analysis and, you know, personal property tax is something that

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helps our hurting farmers, right? I'm pro-ag, but it also helps our small businesses in our towns and it helps our...you know, our job creators. School Readiness Tax Credit Act, my goodness. You know, that is an investment in the future, and the same with Angel Investment. You know, we heard Senator Morfeld this morning talk about how important it was for the Business Innovation Act to reinvest and to do that whether it's bio or some other form. I just...I have a little heartburn over these three. I looked at LB373 last week. And based on LB373, I think they're a lot better, as Senator Groene said, low-hanging fruits out there. So is it our job to make that responsibility or is it, shall we just look at a checkpoint of, well, you don't have to reapply for it this year, so that's what we should cut. I guess I'm asking you for advice. How should...when looking to raise, because it looks like we're going to have to... [LB233]

SENATOR STINNER: Well, I agree with all your statements as far as the worthiness of each one of these credits. If you can find something that fits the criteria... [LB233]

SENATOR HARR: And what is this, simply that criteria? [LB233]

SENATOR STINNER: Criteria is no tax increase. [LB233]

SENATOR HARR: And no tax increase as defined...a tax increase is defined as what? [LB233]

SENATOR STINNER: As something that would cause you to pay more money in taxes. [LB233]

SENATOR HARR: Well, all three of these would make people pay more money in taxes though. [LB233]

SENATOR STINNER: And something that would be one-time, you have to apply for. [LB233]

SENATOR HARR: And I guess maybe I'm the only conservative in this room again, but I like to look at programs that aren't working and cut those. Even if it raises someone's taxes, if it's not working, I think that's probably more important to cut than keep funding somebody whose program isn't doing what it's supposed to do. But if we cut it, they have a tax increase. [LB233]

SENATOR STINNER: I don't disagree. [LB233]

SENATOR HARR: Okay. Thank you. [LB233]

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SENATOR SMITH: Senator Schumacher. [LB233]

SENATOR SCHUMACHER: Thank you, Chairman Smith. Thank you for putting up with us. (Laughter) Somebody, if we were not in the state that had no ability to borrow money, would this be an appropriate time to borrow some money if we assume that this is a...we'll bounce right out of it 4 or 6 percent next year and we'll be rich again? [LB233]

SENATOR STINNER: Well, you're asking a banker about whether we have to borrow money or not. (Laugh) If you were going to borrow money, this is an appropriate time possibly from an interest rate cycle, but certainly not from what the people of Nebraska expect out of us, and that is conservatism. We do have a rainy day fund and it is raining and we are going to use it to a certain extent, so. [LB233]

SENATOR SCHUMACHER: But do the people of Nebraska expect us not to put oil in the car on the theory that we'll be able to afford a new engine in two years? [LB233]

SENATOR STINNER: No, we're trying to make strategic, prudent cuts without having the oil go out of the engine, so. [LB233]

SENATOR SCHUMACHER: Thank you. [LB233]

SENATOR SMITH: I see no further questions. Thank you, Senator Stinner. [LB233]

SENATOR STINNER: Thank you. I do have a bill coming up during the Legislature, so. [LB233]

SENATOR SMITH: Understand. Thank you. So we will move forward now with testimony on the amendment that was introduced by Senator Stinner, AM707. We will begin with proponents, those wishing to testify in support of what we have heard here today on AM707, proponents. Seeing none, we move to opponents, those wishing to testify in opposition to AM707. Welcome. [LB233]

JOHN CAVANAUGH: (Exhibits 4 and 5) Mr. Chairman, thank you, and members of the committee. My name is John Cavanaugh, J-o-h-n C-a-v-a-n-a-u-g-h, from Omaha, Nebraska. I'm here today on behalf of the Holland Children's Movement, a nonpartisan, not-for-profit organization organized by Richard Holland and committed to improving public policies essential to providing opportunities for success for children and families living in poverty. I appear in opposition of AM707 to LB233 which would suspend the School Readiness Tax Credit Act after

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the first year of operation in 2017. I'm also appearing on behalf of the Nebraska Child Health and Education Alliance, which is a group of advocates and providers of healthcare and education on behalf of children receiving those benefits. The School Readiness Tax Credit was enacted overwhelmingly by the Nebraska Legislature in 2016 and is designed to dramatically expand the number of childcare providers in the state providing high-quality childcare, and increase the number of highly trained and educated staff providing care to Nebraska's children. The program is all about quality childcare in Nebraska children for working families. This program has been received with great enthusiasm across the state by parents, educators, providers, employers, and staff working in childcare. This has been viewed as a policy that could quickly establish Nebraska as a national leader in statewide high-quality childcare. We are a long way from that goal today. The map I have included in this presentation is from the Step Up to Quality Program provided by the Nebraska Department of Education. It is a true good news and bad news story. The map shows the participation as of March 2017, in the Step Up to Quality Program. It shows 374 childcare programs have entered the record program and only 218 of the more than 3,000 licensed childcare providers are currently participating in the Step Up to Quality program. Of those 218 participating, only 3 have received the highest rating of Step 5; an additional 4 programs are at Step 4; and a total of 34 programs have achieved Step 3 quality ratings. This means that for the entire state there are today only 39 programs eligible for the School Readiness Tax Credit. If you are looking for revenue, this is not the place to find it. If you are looking to do real damage to an effort underway to raise quality standards for childcare in Nebraska, this is certainly the place to start. This amendment would have the effect of killing this childcare quality program in its infancy and possibly set the effort back for years to come. I would like to direct your attention to the map because two weeks ago we were extremely excited about this. And you see the number of childcare centers across the state reaching for quality, but we're at 219 out of 3,000, so we're at the very beginning. And this childcare tax credit is a very big part of the enthusiasm that we began to see about raising quality standards across the state. You're going to let it operate for one year, 2017. And I'm not exactly sure what the Chairman said, but then cut it off in '18. There's no revenue in this at this point. You've got 39 people capable of even applying for the tax credit. This is...if you've ever heard of pound-foolish, this is absolutely what this is. And it isn't even penny-wise. You will terminate, for sure, all of the enthusiasm for raising quality for childcare in the state of Nebraska. You're going to hear from some providers this afternoon who are true Nebraska heroes. These are small business people who strive every day to bring quality childcare to working poor families, the most vital service that can be provided to those people who are working for a living. This would do great damage to those providers and huge damage to the work force that is now incentivized to raise their standards, raise their education, raise their training, raise the level of quality of care that they're providing to children every day. This amendment should not advance to the rest of the Legislature. When combined with LB335, this is an assault on quality childcare in the state of Nebraska. They can't operate without money. Thank you very much, Mr. Chairman. [LB233]

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SENATOR SMITH: Thank you, Mr. Cavanaugh. Questions from the committee? Senator...Mr. Cavanaugh, hold on just a second. We may have a question for you. [LB233]

JOHN CAVANAUGH: Sorry. [LB233]

SENATOR SMITH: Senator Schumacher. [LB233]

SENATOR SCHUMACHER: Thank you, Chairman Smith. Thank you, Mr. Cavanaugh. Obviously when somebody is looking to get into your picnic basket, you want to point to some other picnic basket the bear should look at. In looking at this situation that's caused the Appropriations Chair and now this committee to look at trying to find pennies, have you and your organization looked at where there might be more fruitful places to gain revenue to dig us out of this hole? [LB233]

JOHN CAVANAUGH: Well, Senator Schumacher, you know that we have because I was here on St. Patrick's Day, thanks to Senator Harr's scheduling of this committee hearing, to testify in favor of the cigarette tax and an increase to \$1.50 which would solve all of these problems. And it's a tax, if you talk about unpopular taxes, as the Chairman was addressing, most recent poll was that the cigarette tax increase to \$1.50 is supported by 71 percent of the people of the state of Nebraska. People get it. It improves health, it provides revenue, it provides opportunities to increase funding for healthcare, and all of the other problems that we're currently experiencing. If you all want to be popular, voting for the cigarette tax...I even had smokers say to me, I wish they would increase the cigarette tax, I would quit smoking. You can save lives. Every young life you stopped from smoking is going to be healthy for the rest of their lives. So there are many opportunities other than the most vulnerable serving the most at risk, which is childcare providers serving low-wage children. [LB233]

SENATOR SCHUMACHER: You heard the Appropriations Chair say that some things were deemed to be off-limits to us. The cigarette tax is a new tax. The Internet sales tax is a new tax. Are there any things that would fit this constraint that has come down apparently under the threat of a veto of some sort or some type of intervention, politically that would not be a tax? Any of those picnic baskets out there? [LB233]

JOHN CAVANAUGH: Well, I understand you're considering adjusting the reserve from 3 percent to 2 percent. I suppose that's a possibility or some variation on that if you wanted to eat into the reserve as opposed to the tax. I would prefer the cigarette tax overwhelmingly because of the good that it will do across the board. But the other thing I want to say in terms of good public policy, if you're all familiar with the Buffett Early Childhood survey that they did with Gallup, which again came at 30,000 Nebraskans interviewed, 68 percent said, we need to spend more

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money on early childhood education, not less. So this would also take you...I don't know anybody, anybody who would go home to their constituents and say, you know what I did this session, I stopped the march towards quality in early childhood education in this state for you. Is anybody willing to do that? [LB233]

SENATOR SCHUMACHER: Thank you. [LB233]

SENATOR SMITH: Senator Larson. [LB233]

SENATOR LARSON: Thank you, Mr. Cavanaugh. Do you know what are the Step 4 and 5 programs in the state? [LB233]

JOHN CAVANAUGH: Pardon? [LB233]

SENATOR LARSON: So are these Step 4 and 5 programs that are in the state...I'm looking at your handout, are these all... [LB233]

JOHN CAVANAUGH: On the Step Up to Quality? [LB233]

SENATOR LARSON: Yeah, are these all programs that are owned by...these are...to qualify for this you have to be for-profit daycare? [LB233]

JOHN CAVANAUGH: No, most of these are not-for-profit. [LB233]

SENATOR LARSON: Okay. So the not-for-profits aren't necessarily getting the tax...will they get the tax credit as well as nonprofit? [LB233]

JOHN CAVANAUGH: Well, no, if they're not paying taxes, they're not. [LB233]

SENATOR LARSON: Okay. So what are the...do you have a list of what...there's 7 programs total that are in the Step 4 and 5. [LB233]

JOHN CAVANAUGH: Right. [LB233]

SENATOR LARSON: What are they? Which ones? [LB233]

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JOHN CAVANAUGH: The Department of Education would have to provide you that. I don't have that information. [LB233]

SENATOR LARSON: The Department of Education. Okay. [LB233]

JOHN CAVANAUGH: They operate the Step Up to Quality programs. [LB233]

SENATOR LARSON: But you don't know which ones those are, if they're profit, they're for-profit or nonprofit? [LB233]

JOHN CAVANAUGH: No. I don't even know if they're of public record. [LB233]

SENATOR LARSON: Okay. So all three of the Step 5 programs could be not-for-profit. [LB233]

JOHN CAVANAUGH: They could be. [LB233]

SENATOR LARSON: Therefore, they aren't even qualified to get the \$750 per student, correct? [LB233]

JOHN CAVANAUGH: Yes, there's no money in this program. [LB233]

SENATOR LARSON: Well, I'm looking because we're looking at 2017. You're talking about the cutting this program because of enthusiasm. [LB233]

JOHN CAVANAUGH: Right. [LB233]

SENATOR LARSON: And I'm looking at, you know, the Step 3 program. That's why I kind of wanted to know what specific day cares or whatnot are going to be cut in that and you know, I think there's some excellent day-care centers. [LB233]

JOHN CAVANAUGH: I'll look into that and if we can get it to you, we will get it to you. [LB233]

SENATOR LARSON: But we're looking at cost cutting measures and so the question is, all right, there's 7 of them, or 7 of the biggest tax credits are obviously and what the eligible

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program (B) and (C) for Step 4 and 5 programs which there's only 7 in the state and there's only 32 Step 3 programs. [LB233]

JOHN CAVANAUGH: Right. [LB233]

SENATOR LARSON: So I was just wondering how many of those are for-profit, how many of those are nonprofit, how many are we actually going to affect... [LB233]

JOHN CAVANAUGH: That's a good question. [LB233]

SENATOR LARSON: ...in terms of you coming in and testifying in opposition of this. I get where you're in a principle stance, but how many is this actually going to affect is my first question. And second of all, again, I...I... [LB233]

JOHN CAVANAUGH: Well, this is the universe of who is eligible for the tax credit. [LB233]

SENATOR LARSON: So there's only...so what constitutes a Step 5 program then? [LB233]

JOHN CAVANAUGH: It's the highest quality expected. [LB233]

SENATOR LARSON: Well, how do you become that? [LB233]

JOHN CAVANAUGH: Curriculum, staffing, so you've got highly qualified... [LB233]

SENATOR LARSON: So there's only three programs that even...that even meet that, so the Department of Education, or Department of Health and Human Services because childcare often falls under HHS. So if that, you say... [LB233]

JOHN CAVANAUGH: The QRIS is under the Department of Education. [LB233]

SENATOR LARSON: The Department of Education. Okay. [LB233]

JOHN CAVANAUGH: And it's pursuant to legislation passed, I think, four years ago to establish the quality rating system. Before then, we had no quality standards at all for childcare providers in the state. This is still voluntary, but so the state department set up the criteria for the various levels and these are all volunteers who are seeking to be higher quality programs across the state.

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And then last year, the Legislature, wanting to incentivize that process, set up the tax credit system. [LB233]

SENATOR LARSON: Okay. And so essentially since...we haven't even had a year of this yet. This is the first year. [LB233]

JOHN CAVANAUGH: Right. [LB233]

SENATOR LARSON: We don't...we have the fiscal note from last year, but we actually don't know how much this is going to cost us. [LB233]

JOHN CAVANAUGH: Right. [LB233]

SENATOR LARSON: Specifically this year and we don't even...I guess, I could...can Google it real quick if that's...Step 5, Step Up to Quality programs which ones are profits...nonprofits and for-profits to see how much this costs us and whatnot. And again, you know, I have my child in day care as well. I think it's a great facility. Do you...I get where, you know, this can excite people, but in essence you mentioned enthusiasm. Do you think that people are going to lose their enthusiasm if this is cut? Because they honestly haven't felt... [LB233]

JOHN CAVANAUGH: Well, I think if you run it for a year and... [LB233]

SENATOR LARSON: Because they've never actually had this money, they never actually... [LB233]

JOHN CAVANAUGH: And then you cut it off for a year or two years, you're just...I mean, that...how would you feel if you were a small businessperson, in business, you worked hard to raise yourself to a four or a five and you've got the benefit, the economic benefit for that and then it was cut off? [LB233]

SENATOR LARSON: I can tell you how difficult it was to get my 5-year-old into the program that he's in and... [LB233]

JOHN CAVANAUGH: High-quality childcare is hard to find. [LB233]

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SENATOR LARSON: It is. I mean, he was on the wait list for quite a while and so the concept is that, I mean, childcare operates at any market. The better the childcare is, the more demand there will be for that, so. [LB233]

JOHN CAVANAUGH: The bottom line is I don't see any way you could get a million bucks out of this program, but you could do an awful lot of damage to people aspiring to create quality programs and get the education to be a quality provider. That's the choice you've got here. [LB233]

SENATOR SMITH: Senator Harr and then Senator Groene. [LB233]

SENATOR HARR: Thank you, Mr. Chairman. Thank you, and my momma always taught me, call a person by their highest elected office. Do you prefer Congressman or state Senator? [LB233]

JOHN CAVANAUGH: John would be fine. [LB233]

SENATOR HARR: Aren't you a humble man to be, Congressman. These school tax credits, they're not transferable, correct? [LB233]

JOHN CAVANAUGH: Pardon? [LB233]

SENATOR HARR: They're not transferable? [LB233]

JOHN CAVANAUGH: No. The tax credit, no. [LB233]

SENATOR HARR: So unlike some of these others that we've heard of where nonprofits are getting tax credits and transferring to others, that doesn't occur here? [LB233]

JOHN CAVANAUGH: No, I did...I forgot to reference that I did pass out that this is from the Department of Revenue put out just in the last two weeks describing for the public how...what the eligibility levels are. [LB233]

SENATOR HARR: Okay. And I'm just identifying this for the record. And I see that you have Step 3, 4 and 5 there are 39 programs. And as you discussed earlier with Senator Larson, not all the day-care providers are for-profit. [LB233]

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JOHN CAVANAUGH: No. [LB233]

SENATOR HARR: This is nontransferable so that money...they don't get the tax credits. But let's just assume that they all did qualify and they're all for-profit. I did a little math that shows if you had 39 day-care providers who were eligible at a fiscal note of \$1.53 (million), which is what it is for next year, each day-care facility would receive almost \$40,000. Do those day-care providers receive anything close to \$40,000? [LB233]

JOHN CAVANAUGH: No. [LB233]

SENATOR HARR: Okay. Even...so if we take away the nonprofits, right, that means they're even fewer, are they receiving let's say half of them, for simplicity sake, are nonprofit. Are those for-profit daycare centers receiving anywhere close to \$80,000? [LB233]

JOHN CAVANAUGH: No. [LB233]

SENATOR HARR: Okay. So you would probably disagree with the fiscal note of \$1.53 (million)? [LB233]

JOHN CAVANAUGH: I haven't seen the fiscal note, but I would say that's pure fiction. [LB233]

SENATOR HARR: Okay. What if I told you that actually they had a \$2.24 million? Too high? [LB233]

JOHN CAVANAUGH: On...yeah, the ramp up for this is going to be very slow and difficult. These are very high standards, very difficult for these providers to reach them. And you know in this program, ultimately the whole amount was capped, but we who are advocates in trying to push for improved quality in the state know how difficult it is for individual providers and even for the individuals to, in the work force, to reach these levels where they would be eligible. It's a steep, steep climb and what the fear is, that you're going to put the brakes on what is already an extremely difficult effort to improve quality for childcare. [LB233]

SENATOR HARR: Okay. So, and you know I'm amazed at sometimes in this committee we like the free market; sometimes we don't like the market, and we want to control market growth. But I heard Senator Larson earlier mention, hey, let the free market decide, that we want more high quality, people will pay to send their kids to high-quality day care. I think I am, or at least I hope I am sending my kids to high-quality day care. My question though is, I make \$12,000 a year so I can afford that. What about those who don't make as much money as I do? (Laughter) Should

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they not be able to have help, should the market be there to prevent them from getting the high-quality healthcare (sic) that I'm able to afford? [LB233]

SENATOR LARSON: Day care. [LB233]

JOHN CAVANAUGH: Well, you know, what we have is child-care subsidies which is a hundred million dollar program, \$50 million of federal, \$50 million of state, which you just moved a bill, LB335, to Select File, which would take the compensation there from 60 percent of the market rate to 50 percent of the market rate. So you're already severely penalizing those providers who are serving those children of the working poor. You can't even get in that program unless you're making less than 120 percent of poverty, which is basically less than \$25,000 a year. If you make less than \$25,000 a year, the only way that you can work is to have childcare provided or subsidized for you, otherwise, we're talking about 30,000 people in this state who don't get into the work force because they can't afford childcare. You can't pay \$7,000, \$8,000, \$9,000 a year in childcare and work for \$25,000. [LB233]

SENATOR HARR: Thank you, Mr...or Congressman Cavanaugh, I apologize. [LB233]

SENATOR SMITH: Senator Groene. [LB233]

SENATOR GROENE: Thank you, Chairman. The Step Up is a different program than...this one just started last year. I think Senator Mello introduced it, is that correct? [LB233]

JOHN CAVANAUGH: The tax credit program was started last year by Senator Mello. The Step Up to Quality was instituted, I think, four years ago, but... [LB233]

SENATOR GROENE: But again if this isn't constitutional. [LB233]

JOHN CAVANAUGH: Pardon? No, no, that's the funding for the Sixpence Fund. That's a wholly separate thing. The Step Up to Quality is a volunteer...well, it's a mandatory program if you are earning or receiving more than \$250,000 in state subsidy. Then you're forced to participate in the Step Up to Quality. [LB233]

SENATOR GROENE: So if you're taking Sixpence money, you've got to Step Up. [LB233]

JOHN CAVANAUGH: No, if you're taking subsidy money, state subsidy money. Sixpence money is essentially foundation...private foundation money, but they do...they assist providers to

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get to the Step Up to Quality level or the quality level. The Step Up to Quality is simply a rating system that if you meet certain criteria in terms of your curriculum, your facilities, your work force training, then you're a 1, 2, 3 or 5...4 or 5. [LB233]

SENATOR GROENE: Thank you. [LB233]

SENATOR SMITH: I see no further questions. I'm glad Senator Harr reminded us of your past service to our state in the U.S. Congress. We appreciate that. That's kind of a thankless job... [LB233]

JOHN CAVANAUGH: Thank you. [LB233]

SENATOR SMITH: ...maybe more thankless than ours. [LB233]

JOHN CAVANAUGH: Thank you. [LB233]

SENATOR SMITH: Thank you for being here. Next proponent of AM707. Proponent...oh, I'm sorry, yes, I'm sorry, opponent. We had been so long on that one, I forgot where we were. (Laughter) All right, opponent. Welcome. [LB233]

SUSAN SARVER: (Exhibits 6-7) Welcome. Thank you. Chairman Smith and honorable members of the Revenue Committee, my name is Dr. Susan Sarver, S-u-s-a-n S-a-r-v-e-r, and I'm the director of work force planning and development at the Buffett Early Childhood Institute at the University of Nebraska. It's my privilege to appear before you today to speak in opposition to AM707 to LB233, specifically Section 77-3604, which addresses the School Readiness Tax Credits. Last March, our founding executive director, Dr. Samuel Meisels, testified before the Revenue Committee in support of these important tax credits. I would like to first reiterate some of the key statements from last spring about why these tax credits are important for children and the adults and businesses who provide quality care and education for them. Second, I will explain why I believe it is essential that we continue with these tax credits and not postpone their implementation. During the first years of a child's life, children's brains are growing at a rate never again to be achieved in their lifetime. At birth, 700 new neural connections are formed every second. The majority of the brain growth occurs in the first five years. This is an extremely critical period of time for human development. More than 150 high-quality scientific studies from around the world demonstrate that starting early can have major long-term and short-term effects on cognitive and social emotional development. Research tells us that the quality of the teacher or the caregiver predicts the quality of the children's learning from birth through grade 3. Well-prepared teachers are not only able to help children acquire vocabulary, learn to do math,

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and read and write, they also enable children to develop curiosity, communicate, cooperate, and acquire the capacity to regulate their emotions and solve problems. We have strong evidence that children whose teachers know how to help them succeed in kindergarten are more likely to go to college than children from similar backgrounds who do not have high-quality teachers. The School Readiness Tax Credits support these skilled teachers and their quality programs. The School Readiness Tax Credits are targeted for programs that offer quality services and the teachers within those programs. They are tied to participation in Step Up to Quality, which is a rating system for child-care programs that allows clear accountability. I strongly support the efforts of the Step Up to Quality program. It has made significant progress enrolling and assisting programs across the state and these tax credits reinforce that participation. At a time of fiscal constraint, tax credits that have not yet been put into effect may seem to be a simple, easy solution, but this neglects the long-term impact of what these credits are designed to do, improve the quality of care for our youngest citizens and support the small businesses and individuals that provide that care. The tax credits for individual child-care workers ranges from \$500 to \$1,500 depending on their level of training, education, and experience. The median yearly salary for child-care providers is \$19,620. That's a figure that's \$3,000 below the poverty line for a family of three. This tax credit can help families pay their bills and begin to move out of poverty. We have data from a recent survey that demonstrates teachers spend on average \$400 per year of their own money on their classrooms. This tax credit would help offset that personal cost that they incur and reward them as they continue to improve their education and training. The Department of Health and Human Services lists over 3,000 licensed child-care providers in the state. Most of these are small businesses. Eighty-seven percent of them are independently owned and operated. These businesses not only provide care and education for our children, but also serve as a crucial component in the community. They allow parents to stay and work in the community. When a child-care business must close, the entire community can be affected, particularly in the most rural parts of our state. These tax credits for businesses provide a very small cushion for those businesses based on the level of quality they provide as verified by Step Up to Quality. As Mr. Cavanaugh said, Nebraska citizens value early care and education, and 68 percent of Nebraskans say it should be a higher priority for our state, according to the Buffett Institute, Gallup survey. Nebraska citizens also recognize that providers in the field are paid too little. Fifty-five percent of parents say that the early care and education work force is paid too little. Freezing these tax credits will impact small businesses and low-income childcare providers the most. While saving some funds immediately, it shortchanges the long-term impact of improving quality, recruitment, and retention with the early childhood work force. I urge your thoughtful consideration of this amendment and respectfully request that you not accept AM707. [LB233]

SENATOR SMITH: Thank you, Dr. Sarver, for your testimony. Senator Larson. [LB233]

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SENATOR LARSON: Are you...you handed this out to us. Are you associated with this?
[LB233]

SUSAN SARVER: Yes. I am not associated with Step Up to Quality, but there are some representatives here from the Department of Education and they handed me those that you can...
[LB233]

SENATOR LARSON: Are they going to...who...are they going to testify because I have some questions for them? [LB233]

SUSAN SARVER: I don't think they can testify. I may be able to answer some of your questions.
[LB233]

SENATOR LARSON: I was just looking at their Web site and frankly, it looks pretty but it has no...I look at the parents and families and it doesn't tell who...this Level 5 programs are, 4 programs are. [LB233]

SUSAN SARVER: Yes, the public release of those ratings will be this July so the way the legislation was originally written, programs are voluntarily into the program. They make their way through. The public release of those ratings will be this summer. [LB233]

SENATOR LARSON: Okay. So they've already been...obviously, they've already been identified. Do you know who those programs are? [LB233]

SUSAN SARVER: No, because it is not public at this time. [LB233]

SENATOR LARSON: So you do know who those programs are? (Laughter) [LB233]

SUSAN SARVER: I know that some...I know that the Level 5 programs are family-based providers, home-based providers. [LB233]

SENATOR LARSON: Home-based providers. [LB233]

SUSAN SARVER: Uh-huh. [LB233]

SENATOR LARSON: Okay. [LB233]

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SUSAN SARVER: So they are for-profit, small businesses. [LB233]

SENATOR LARSON: So can the nonprofits...can't be Level 5 then? [LB233]

SUSAN SARVER: Yes, they can. Any program can enroll in Step Up to Quality... [LB233]

SENATOR LARSON: Okay. [LB233]

SUSAN SARVER: ...because it is voluntary and then they move their way through the steps based on how they work through. They have coaches that come in and work with them and they have outside observers who come in and observe their classrooms. So any sort of childcare. [LB233]

SENATOR LARSON: All the Step 5 programs are like in home. [LB233]

SUSAN SARVER: For now. [LB233]

SENATOR LARSON: Okay. [LB233]

SUSAN SARVER: Others could be moving up, so some of those threes and fours may be center-based programs. [LB233]

SENATOR LARSON: Okay. And...so every one of the four, fives are in-home day cares right now. [LB233]

SUSAN SARVER: The fives are as far as I know, but you could check. The Department of Education has all of that in their database though and could give you that information. [LB233]

SENATOR LARSON: In terms of this credit for staff members...so they aren't listed yet but they will be public who would the level 3s and 4s will be public. [LB233]

SUSAN SARVER: Yes. And if you were...you said you have a four-year-old in childcare... [LB233]

SENATOR LARSON: Five. [LB233]

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SUSAN SARVER: Five, excuse me. You could ask your child-care provider if they're enrolled in Step Up to Quality and if they have a rating. So they could release their ratings on their own, but because of the way the legislation was written, Nebraska Department of Education (inaudible). [LB233]

SENATOR LARSON: He's in a center, so. [LB233]

SUSAN SARVER: They could still be. [LB233]

SENATOR LARSON: And...okay. The way that I read it, it's per student, so they, you know, one of those in-homes would give \$750 credit per student. [LB233]

SUSAN SARVER: Yes, on the business side. [LB233]

SENATOR LARSON: And that each staff member would get...okay. [LB233]

SUSAN SARVER: The staff members have to apply independent of the business. So the business would apply for their tax credit, then staff members would apply. Staff members cannot apply though unless they are in a center that is at least a Step 3. [LB233]

SENATOR LARSON: Thank you. [LB233]

SENATOR SMITH: Senator Groene. [LB233]

SENATOR GROENE: Thank you, Chairman. How much is the Buffett Early Childhood involved in setting these qualifications? [LB233]

SUSAN SARVER: We were not involved at all in setting the qualifications. [LB233]

SENATOR GROENE: So who was setting them? [LB233]

SUSAN SARVER: The qualifications are set by the Department of Education. [LB233]

SENATOR GROENE: Do you know how much weight is put on that if you...to that you have a rubber stamp diploma in early childhood from an educational institution? [LB233]

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SUSAN SARVER: I have not seen the latest version, but my understanding it is a combination of education, training, and years experience in the field. So it's a matrix based on if you... [LB233]

SENATOR GROENE: How about outcomes? How good...while you're respected in the community and grandma's been...and her family has been doing this for years and the kids go to school, know the ABCs, but they haven't gone off to the university and get a degree in early childhood. [LB233]

SUSAN SARVER: That would come under experience and training. So if you have been in the community providing childcare service for so many years, you would get...I think they've done it as kind of a point system. You would get so many points because you've been in the (inaudible). So if you've participated in training you get so many points for being in that training. So you could not have an early childhood degree and still move up through those levels of individuals. [LB233]

SENATOR GROENE: So if you own your own business in your home and you want to improve yourself, so you're taking classes. [LB233]

SUSAN SARVER: Yes. [LB233]

SENATOR GROENE: But you're only a level 1, but you want to get to level 4 and you only give them 500 bucks. [LB233]

SUSAN SARVER: Yes. [LB233]

SENATOR GROENE: Well, it seems like it's way to the top already, instead of the people who want to move up. It's like a progressive tax system. [LB233]

SUSAN SARVER: I would agree that the tax credits do not offset the cost that it would take you to go back to school to get a degree to move up in those levels. [LB233]

SENATOR GROENE: But it's influenced towards the ones that are already rated 4th and 5th. I mean, this isn't why we're here, I mean to reexamine the program, but anyway, I was curious. [LB233]

SENATOR SMITH: Senator Harr. [LB233]

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SENATOR HARR: Thank you, Mr. Chairman, and thank you, Senator Groene, for those good questions. Maybe we should put more money into this. This has a fiscal note of \$1.53 million. You seem to be pretty familiar with the program, who qualifies and who does not. Do you think that \$1.53 million fiscal note is accurate? [LB233]

SUSAN SARVER: I have not seen the fiscal note. This is the first I heard of it, so I do not know. I would agree with Mr. Cavanaugh that I would be very surprised that it would be that expensive. With only 39 programs eligible at this point, and assuming that every individual working in those programs is eligible for the individual tax credits, I don't think it would approach that amount. [LB233]

SENATOR HARR: And it sounds like the ones that are already at Step 5 are home-based which would to me indicate they're probably small. [LB233]

SUSAN SARVER: They're probably one or two individuals. [LB233]

SENATOR HARR: Okay. Thank you. [LB233]

SENATOR SMITH: Seeing no further questions, thank you, Dr. Sarver. [LB233]

SUSAN SARVER: Thank you. [LB233]

SENATOR SMITH: Next opponent. Welcome. [LB233]

THELMA SIMS: Good afternoon. My name is Thelma Sims. I am one of the small business owners that you guys are having this conversation about and I hated to be so pushy, but at 3:00 our world begins. [LB233]

SENATOR SMITH: I know and I'm going to have you spell your name for us, please. [LB233]

THELMA SIMS: T-h-e-l-m-a, last name is Sims, S-i-m-s. [LB233]

SENATOR SMITH: Thank you. [LB233]

THELMA SIMS: I am here against this particular bill on the table, if that's what you say, because I serve those children on a daily basis who are most at risk. My world and my experience comes from Head Start so I know the quality of care and I know how important it is

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to the future of those children that we serve on a daily basis, they deserve the same. They, too, one day will be adults and will have to function in this society. So if we miss the mark in the first eight years of their lives, then they never catch up. So when you start taking away incentives or reasons for us to work and sacrifice...I'm an old woman. You know, my kids say, you're not old, but I am, to have taken on this business venture four years ago, but I took it on because I have that passion to see that every child has some exposure or some opportunity for hope. If I don't have hope, then I have no reason to live. If I don't have hope, I have no reason to achieve. If I don't have hope, then there's no reason when my preschool teacher who has nurtured me, who has been that grandmother for years, taking care of me, simply taught me my ABCs but when I go to school, I can't get to the next level of the alphabet because grandma has done nothing but love me. I make this sacrifice every day along with some of my counterparts to give the kids the quality of care that they need. You know, I have to have some incentives for individuals to come into this profession because it's not high paying. You know, most of the individuals, as it was stated, work below that poverty guideline; but I make that sacrifice to pay my staff above minimum wage. You get what you pay for. If I want a \$7.25 an hour employee, then I wouldn't be here talking about this tax incentive, but I'd rather pay an individual \$12, which is still not where they need to be, based on the future of these children. If my teacher can't read, then how are they going to teach my kids to read? So, to go back and get their second level of education in early childhood development and take it on as a profession instead of a task, you know, it...to put barriers in the way, it only sets us back. You know, I've been in this world and I came, like I said, from this Head Start world where money was not an issue. You know, if you have a program every year that's granted \$7 million, well, then I have no reason not to pay my staff, but I don't have the \$7 million. And if I did, I'd tell you what, I'd have a dream world. Everything I know that's possible, everything I know that's necessary, I would do those things. So we serve those kids. We do. And I work hard. I started at 4:30 this morning and probably won't be done until about 7:00 tonight because it's my responsibility as a person in my community, or a part of my community, the greater community, and these children that we serve, to make sure they get quality care which means I have to take care of those teachers, give them those reasons to go back and do the things that they need to do to stay home, top of the game. [LB233]

SENATOR SMITH: Thank you, Ms.... [LB233]

THELMA SIMS: So I don't have a formal statement like everybody else, so I see my light is still green. I haven't gotten to the yellow yet. But, you know, I'm speaking from my heart, and I'm speaking from what I decided to take on and do. And to create Step Up to Quality has raised the bar for everybody that's been in this game for a whole lot of years because I work with some of my counterparts that have been doing this for 30 years. There was no reason to have quality care, this warehouse kids. I came into the game coming from Head Start, the quality is what we need to do. I don't want quantity. I'd rather have ten kids that I know that are going to go to college,

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come back to be my doctor, maybe a scientist, because I had an impact on those first eight years of their life. So I'm pretty much done with my little soapbox today. [LB233]

SENATOR SMITH: Thank you, Ms. Sims, for your testimony. Do we have questions for Ms. Sims? All right. See, now you did a very nice job. Thank you for coming today. [LB233]

THELMA SIMS: Thank you. [LB233]

SENATOR SMITH: Next opponent. Welcome. [LB233]

SUSAN SNOW: Thank you. My name is Susan Snow and I'm the director of a nonprofit center in Omaha, Nebraska, Morning Star Preschool and Childcare Center. [LB233]

SENATOR SMITH: And let me ask you to spell your name for us, please. [LB233]

SUSAN SNOW: Pardon? [LB233]

SENATOR SMITH: Spell your name for us, please. [LB233]

SUSAN SNOW: Snow. S-n-o-w. [LB233]

SENATOR SMITH: Thank you. [LB233]

SUSAN SNOW: Okay. I've been the director for 12 years and I have been in and out of early childhood for over 30 years. I have three undergrad degrees and I have a master's degree in education, and 12 years ago I made more money working at Younkers selling fragrances with a commission. Just so you kind of know where we're at. I read to about 70 children daily and that's where I'm comfortable. Speaking in front of adults is not my thing, so I'm going to pretend to you that I'm reading my favorite book to you. Our center was one of the first in the state of Nebraska to qualify for Step Up to Nebraska. We are a 4. We are this close to being a 5, and it still drives me crazy. So when you hear that there's only a few 5s, that's how difficult it is to be a 5. We would have scored a 5 if I would have had more teachers with an education, with a certified degree, bachelor's or a master's. And I now presently have three master's working in my program. We have a staff of 40. I'm licensed for 150 children. In June of 2017, 50 of those children will be toddlers. Last year we turned down 52 infants that were on our waiting list, so this is how drastic the problem is. At the end of the year, when we turn in our final budget we're lucky to break even financially and again we are nonprofit. Our center participates in the child-

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care subsidy program. This is a government program that will help finance childcare for low-income families. To participate in Step Up to Quality, you must participate and to step up in quality is also the right thing to do. We lose over \$3,000 yearly per child because that is the fee that's paid to us from the government for paying our parents...compared to what we charge our parents. So to kind of put it into perspective, if we have ten children that are under subsidy, that means we lose about \$39,000 a year. That equals one full-time qualified staff member's salary. The School Readiness Tax Credit would help cover this gap. We have a serious problem, even in Omaha, to get qualified staff members and our center is one of the better ones. I'm not sure if you know this, but to work in a licensed child-care center, you have to have 1,500 verified clock hours of experience or you have to be willing to get 45 clock hours of training within the six months...the first six months of employment. Then you have to continue that year and have 15 more training hours. So finding qualified staff with experience is difficult, but we are willing to pay the 800 extra dollars for unqualified employees to gain those 45 in-service hours. This employee, usually in their 20s, will work a 40-hour work week, take a two-hour class to be qualified in our program in approximately 12 weeks. Our starting salary for an unqualified employee is \$10.50 an hour. I interviewed approximately 80 unqualified applicants in 2014. Only four of these unqualified applicants were willing to work the 45 clock hours for experience. One staff member remained on our payroll in January of 2015. The reason for this, they can make more money and it's easier to go to McDonald's that pays \$11 an hour, if you're willing to work the drive-in. I find it's interesting when the School Readiness Tax Credit in 2016, I used it as a recruitment tool. I interviewed about the same number of people but I had more applicants interested in putting in that 45 hours because they knew about the School Readiness Tax Credit, and I use that as an incentive. This field puts me in the position to interview lots of young staff members in their 20s--no college, no goals, no experience. One staff member that stayed with me in 2015 is now a young mother. I pay for her childcare, we participate at TEACH. She's getting a college degree in early childhood. The School Readiness is different than any other tax credit because they're providing funding to support quality early childhood education. With these credits we can do more for our families, our children, our staff. Quality does come with a financial cost and the Nebraska School Readiness Tax Credit is an answer to my prayers because employees count on every financial way they can remain in the early childhood profession. This tax credit would improve early childhood programs. It would improve the early childhood work force and families. Just this morning I had a young mother, a pediatric nurse, who dropped off her 12-month-old Chloe. It was Chloe's second day and this mother, with tears in her eyes, told me I can only do my job because I know this baby is safe with you. Our children are thriving, our children are confident, they feel empathy and I know they're ready to leave our program with great success in life and school. The Nebraska School Readiness Tax Credit will help. And I appreciate your time in making the hard decision before...between quality and inadequate care for my children. Thank you. [LB233]

SENATOR SMITH: Thank you, Ms. Snow. Questions? Senator Schumacher. [LB233]

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SUSAN SNOW: Any questions? [LB233]

SENATOR SCHUMACHER: Thank you, Chairman Smith. Thank you for your testimony. [LB233]

SUSAN SNOW: I'm sorry, I'm hard of hearing. [LB233]

SENATOR SCHUMACHER: Oh, thank you for your testimony. Do you consider yourself a small business? [LB233]

SUSAN SNOW: Yes. We're a nonprofit, we're in a church. [LB233]

SENATOR SCHUMACHER: Okay. And so if the state had a couple million dollars that would go to small businesses, you could use it. [LB233]

SUSAN SNOW: Oh, yes. (Laughter) [LB233]

SENATOR SCHUMACHER: Thank you. [LB233]

SUSAN SNOW: Yes. I mean we're scrambling for funds right now for paint inside of our facility. We haven't changed our center. It's been around since 1963 and I can't afford to change the coat hooks. Yes. If we had an extra \$25, I could use it. [LB233]

SENATOR SCHUMACHER: Thank you. [LB233]

SENATOR SMITH: Senator Harr and then Senator Groene. [LB233]

SENATOR HARR: Thank you, Chairman Smith. I see your favorite book is Brown Bear, Brown Bear, What Do You See? So I'm going to ask you, Ms. Snow, Ms. Snow, what do you know? (Laughter) You're affiliated with the Lutheran Church, is that correct? [LB233]

SUSAN SNOW: Yes, we are in a Lutheran Church, yes. [LB233]

SENATOR HARR: Okay, and I'm going to opine for a second, and say, I think you're one of the best out there, if not the best. And if I could afford to send my kid there, I would. How much does it cost per kid per year, approximately? [LB233]

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SUSAN SNOW: I can't tell you yearly, but our monthly fee for an infant is \$1,400 a month. [LB233]

SENATOR HARR: Okay. Well, I want to thank you for your work that you do. My wife is the principal at Swanson and where Anissa (phonetic) trained this week, so we are...we take some stress off of her by having good kids that go to Swanson, so thank you very much. [LB233]

SUSAN SNOW: Excellent. I know your wife. Yes, thank you. [LB233]

SENATOR SMITH: Oh, Senator Groene. [LB233]

SUSAN SNOW: Oh, I'm sorry. [LB233]

SENATOR GROENE: Explain the 45 hours. Is that paid, 45 hours? [LB233]

SUSAN SNOW: If you do not have experience, then the state regulations requires you to get 45 in-service hours. [LB233]

SENATOR GROENE: What's in-service classes...? [LB233]

SUSAN SNOW: It's CPR, first-aid. I would send you...last week there was infant symposium, so you would go to classes. So, for example, if I was hiring somebody to work with the infants, I would specifically send them to classes on how to work with infants. I would also send them to Safe with You training which covers SIDs, shaken baby, and child abuse. [LB233]

SENATOR GROENE: Who gives that training? [LB233]

SUSAN SNOW: Pardon? [LB233]

SENATOR GROENE: Who offers that training? [LB233]

SUSAN SNOW: Several different organizations offer those. The ESU 3 organizes some of those. The Nebraska Health Council organizes some of those and some of the school districts. [LB233]

SENATOR GROENE: And then you first stated, you have to have 15 hours of experience. How do you get 15 hours of experience if you're...? [LB233]

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SUSAN SNOW: Everyone that's employed has to have 15 hours. I have to have 15 hours. [LB233]

SENATOR GROENE: Will the 15... [LB233]

SUSAN SNOW: So I have to go to a class that's been approved by the state that is a qualified teaching class. [LB233]

SENATOR GROENE: And this came all into effect with the Step Up program legislation? [LB233]

SUSAN SNOW: No, this has been before the Step Up to Quality. The Step Up to Quality is more like a QRS system. And I was intrigued with it that Nebraska was going to finally get a QRS system because it happened at the same time my daughter was having a baby in LA. So how do you find a child-care center in Los Angeles? She knows no one. So I went to their QRS system, to their quality rating systems, and I found the centers that were at the top of the list and that's where we started. So in Nebraska, or in Omaha at my center, I'm lucky because it's mostly word of mouth. But, for example, I just had a family that moved here with Ameritrade from San Diego, they didn't know any centers and they were just happy to know somebody. [LB233]

SENATOR GROENE: So you cannot employ anybody unless they have 15 credit hours in... [LB233]

SUSAN SNOW: No, unless they have 15...\$1,500 (sic) of experience, hours' experience, yes, in a group setting. [LB233]

SENATOR GROENE: How do you get experience if you can't be employed unless you have 1,500 hours? Maybe I'm missing something. [LB233]

SUSAN SNOW: No, if you do not have 1,500 hours of experience, then I will send you to training. [LB233]

SENATOR GROENE: For 45 hours. [LB233]

SUSAN SNOW: Yes, yes. [LB233]

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SENATOR GROENE: Oh, all right. So it's grandfathered in when...that you have to have... [LB233]

SUSAN SNOW: Yes, that is Nebraska's state standards, yeah. Nothing to do with QRS or with Step Up to Quality. [LB233]

SENATOR GROENE: I appreciate it. [LB233]

SENATOR SMITH: Thank you, Ms. Snow. [LB233]

SUSAN SNOW: All right, thank you. Thank you for your time. [LB233]

SENATOR SMITH: Next opponent of AM707. Welcome. [LB233]

TRACY GORDON: (Exhibit 8) Thank you. Good afternoon. Thank you for...dear Chairman Smith and members of the Revenue Committee, thank you for the opportunity to sit before you today in opposition of AM707. My name is Tracy Gordon, T-r-a-c-y G-o-r-d-o-n, and I'm the co-executive director for the Nebraska Association for the Education of Young Children. I also have 25 years-plus--I won't tell you how old I am--of experience in the early childhood field, having worked with all ages of children and in a variety of settings and professional positions. The Nebraska Association for the Education of Young Children envisions a state where all young children receive the highest quality early care and education, and where early care and education becomes a priority for all of Nebraska's citizens. Our organization is committed to supporting high-quality care and education for all young children in the state of Nebraska. Research shows that support for high-quality early childhood education is growing as more voters, lawmakers, businesses, families, and educators begin to take notice of and better understand the impact a high quality early childhood education can have on children's growth and development, their future success in school, and their success in life. Nebraska has shown its support for high-quality early childhood education by creating the Nebraska Step Up to Quality program which provides a systematic process for early childhood programs to make improvements in their program to better serve children and families. As programs complete the requirements in each step and verify their progress, they move up the steps indicating higher quality. However, programs do not receive significant financial support which is necessary to make the improvements to achieve higher quality. To receive the Nebraska School Readiness Tax Credit, an eligible program must be participating in the Nebraska Step Up to Quality system and accept child-care subsidy from the state of Nebraska. Additionally to receive the tax credit, a child-care provider must be working in a Step Up to Quality program and achieve a specific level of education. Because these tax credits are directly aligned with Nebraska's Step Up to Quality program, improvements in quality of care, accessibility to quality, and teacher retention in

quality programs will be directly influenced. Access to affordable, quality childcare is essential to both ensuring that children are prepared for school and allowing parents to work. In Nebraska, 71 percent of children under the age of 6 have all available parents in the work force. This means that the majority of our kids are spending time in some sort of child-care arrangement while their parents are at work or school. With the cost of childcare upwards of \$9,000 per year, low-income families often rely on child-care subsidy to help cover these costs. However, child-care subsidy reimbursements for child-care providers can range anywhere from 60 to 75 percent of market value. And even this is being debated within the current budget conversation. These two freezes, the subsidy and the tax credit, would be a double hit on our child-care providers. The incentives to accept subsidy to help cover the cost of childcare for our most vulnerable young children are lacking and programs that do accept subsidy often express frustration with the process. The School Readiness Tax Credits are one way to incentivize the early childhood community to accept more families utilizing subsidy as they work to improve quality of services that they offer. The additional revenue received by early childhood programs through these tax credits would go directly back to the programs and could be used to improve the quality of services for children and their families. Additionally, the tax credits to the providers individually go back to the provider as a way to help offset the cost that they personally incur when they care for young children. As we learn more about brain development and the keys to future positive educational, economic and health outcomes, we know that investing in high-quality early care and education is key. And foundational to high-quality programs and classrooms are the knowledge and skills of the teachers who work with our children. Nebraska AEYC has been supporting improved education of teachers through the T.E.A.C.H. Early Childhood NEBRASKA scholarship for many years. T.E.A.C.H. Early Childhood NEBRASKA works to improve the quality of care by increasing the education, compensation, and stability of the early childhood work force through scholarships which allow early childhood educators to work towards degree completion while increasing wages. While this vital program helps to bolster the educational level of our early childhood educators, we find that once they have degrees, they leave the field in order to work for the public school system where they will find better compensation and benefits. This leaves our youngest children, infants, toddlers, and preschoolers in the care of our least prepared, least experienced, and least educated providers. Lack of resources in an effort to maintain affordability for parents often make it difficult for individual programs to reward or encourage teacher education through salaries. As a result, many teachers leave the field or never even consider this a profession as an option for them. If we expect the child-care work force to be highly trained and educated, we must find a way to recruit them, compensate them competitively, and retain them. We can't wait to act as we are losing great teachers on a daily basis. Tax credit incentives are a way to close this gap without raising costs for families and provide enough incentive to both stimulate teachers to increase their education and remain in their classrooms. It makes sense to now begin to think about, create, and fund a strategy that will begin to address the incentives for early childhood providers and programs. The Nebraska School Readiness Tax Credits Act would offer much needed benefits to the early childhood work force. In closing, I'd

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like to remind you of the Nebraska Legislature's acknowledgment of support for high-quality early childhood education in the original bill, LB889. That stated, the Legislature finds that the benefits of quality childcare and early childhood education are indisputable and that a striking connection exists between children's learning experiences well before kindergarten and their later school success. Thank you for your time and consideration. [LB233]

SENATOR SMITH: Thank you, Ms. Gordon. Questions for Ms. Gordon? I see none. [LB233]

TRACY GORDON: Nothing? [LB233]

SENATOR SMITH: You were very thorough. Thank you for testifying before us today. [LB233]

TRACY GORDON: All right. Thank you. Thank you very much for your time. [LB233]

SENATOR SMITH: (Exhibits 9-12) Next opponent of AM707. No additional opponents. All right, we do have letters for the record in opposition from Blaine McCann, Westside Community Schools; Julia Tse from Voices for Children in Nebraska; and a letter listing 28 statewide child-care providers. And that concludes the opponents. We now move to neutral testimony, those wishing to testify in a neutral capacity. Welcome. [LB233]

JOHN CEDERBERG: Good afternoon, Chairman Smith and members of the committee. My name is John, J-o-h-n, Cederberg, C-e-d-e-r-b-e-r-g. Some of you have seen me more frequently in past sessions, but I am just finally catching up from being out of my office for several weeks with surgery, and my organizations have been very kind to cover for me, and so you haven't been pestered by me. I'm here for the Nebraska Chamber of Commerce and Industry of which I'm the elected treasurer, also for the Greater Omaha Chamber of Commerce, and for the Lincoln Chamber of Commerce. And we're testifying neutral here because...not because we particularly support suspending these credits. We supported all of these...all three of these when they were enacted. We feel, as has been expressed here at the table, that they are effective, that they focus on Nebraska activities, they focus on Nebraska businesses, Nebraska individuals, and that they are very worthwhile. However, we also understand the revenue environment in which they are brought and so we're going to...we're testifying in a neutral position. My message to the committee, and actually to the Legislature by way of this committee, is do not let these temporary suspensions, if we go that route, become permanent. I want to relay to you a personal experience that we had back around the turn of the millennium. Over two sessions, I invested about...over a hundred hours with Senator--then Senator Landis was a member of this committee--working on a child-care credit bill that would encourage employers to subsidize the childcare of their employees through a credit to the employer and that was enacted. Before it became effective, the tech bubble burst; and in a special session, the effective date was delayed.

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And that delay became a second delay and ultimately that credit was repealed and has not been revived to this day. Once you start down this road, my experience is, it becomes easier to take a really good program that a lot of people worked very hard to structure and develop and never really bring it to fruition. So our message is, if we must go this way, for goodness' sakes, don't let it become permanent. With that, I would be happy to address questions. [LB233]

SENATOR SMITH: Questions from the committee? Senator Groene. [LB233]

SENATOR GROENE: Well, if we're going to give credits, then shall we raise the corporate income tax rate and your personal income tax rate to...so, that's the other side of the coin. [LB233]

JOHN CEDERBERG: I learned long ago before I was an accountant... [LB233]

SENATOR GROENE: To testify neutral? (Laughter) [LB233]

JOHN CEDERBERG: No, when I was a history major intending to become a diplomat, that politics is the art of the possible. And, you know, the answer to that question really is politics is the art of the possible and that's a policy decision that you all would have to make. But it would be much harder than delaying the credits, I can assure you. [LB233]

SENATOR GROENE: So if we have less income to tax because we keep crediting things, don't we have taxed income we can tax high? [LB233]

JOHN CEDERBERG: I think what we're saying is we understand the revenue environment this is coming in. [LB233]

SENATOR GROENE: I'm playing devil's advocate. [LB233]

JOHN CEDERBERG: And we're not going to oppose the suspension that Senator Stinner is proposing, but recessions tend not to be permanent. We certainly hope that the commodity recession we're in isn't permanent. And when we come back out of the recession, and we should be doing that shortly, please let these credits come back in the way that Senator Stinner is proposing. [LB233]

SENATOR GROENE: Thank you. [LB233]

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SENATOR SMITH: Senator Schumacher. [LB233]

SENATOR SCHUMACHER: Thank you, Senator Smith. You mentioned that we're in a recession, but trending grain prices, if we're looking at an agricultural thing, the country certainly isn't in an industrial recession. Trending grain prices going back to 2000 or so, they're pretty much on course with the exception of an unusual blip, so. [LB233]

JOHN CEDERBERG: Of the ethanol blip, yeah. [LB233]

SENATOR SCHUMACHER: And so how can we say that we can expect another blip in the future if we're just trending right on course at \$4 corn? [LB233]

JOHN CEDERBERG: I'm basically saying I think that what the economists are telling us is that we should be coming out of it. You know, Nebraska being so heavily dependent on agricultural production commodities is in a somewhat unique situation along with our friends in Kansas and Iowa. The other thing we do here, and before you were a member of this committee, back in...actually back in the 1890s...or 1990s, (laughter) sorry about that. [LB233]

SENATOR SCHUMACHER: Well, you did say a turn of the millennium. [LB233]

JOHN CEDERBERG: Back in the 1990s, this committee used to have a...used to have a hearing in the fall on Friday afternoons, for obvious reasons. It was a general hearing about...it was kind of a state of the budget hearing for the Revenue Committee. And I remember saying in that Revenue Committee that because of our steeply graduated individual income taxes and the capital gains that the tech bubble was producing at the time that we were having hearings, Nebraska was being lulled into a sense of security for spending money and that they should be putting some of this money away because I suggested if this ever turns, and it will turn one day, the capital gains that we tax at the highest individual rate will be shut off like a faucet. And when the tech bubble burst, that happened. I think we kind of had a repeat of that during the runup of commodity prices and we got lulled into again a comfort level. And then when commodity prices went back to something more historic, it feels a great deal like a recession in our state. [LB233]

SENATOR SCHUMACHER: What then would bring us off of this trendline so this feel like a recession stops when actually it's probably normal? Where...you understand the budget figures probably better than anybody and you've probably seen more of them than anyone, we're anticipating that we'll be rich again in a year or two and we won't have to worry about not reinstating this credit. Why do we believe that? [LB233]

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JOHN CEDERBERG: Let's not say we anticipate being rich. Let's say we anticipate being less poor. And there is a difference. When a family that has run through seven years of only one spouse with a full-time permanent job, suddenly has two spouses with a full-time permanent job, they don't necessarily feel rich because there's a lot of catching up to do, but they do feel a whole lot less poor. [LB233]

SENATOR SCHUMACHER: I know if I had two spouses, I'd feel real poor. (Laughter) [LB233]

JOHN CEDERBERG: No, not two spouses. You understand what I mean. [LB233]

SENATOR SCHUMACHER: Yes, but Nebraska apart from this agricultural normalization, we've been at full employment. People outstate complain they can't find workers, they can't find houses for the workers. Omaha, Lincoln, the two quasi-metro areas, haven't been hurting something bad, so I mean aren't we at normal now? And if we are spinning our wheels to pay the bills, what's going to change? [LB233]

JOHN CEDERBERG: Normal in Nebraska does have a characteristic that is somewhat unique to us and the two Dakotas. Some years ago, I sat down with the Statistical Abstract of the United States, Senator, and tried to figure out the population per settled square mile among the states. In other words, let's take out the Salt Lake, let's take out the deserts, let's take out the federal lands and the mountains and try to figure out the population per settled mile that we are going to provide services to. We, at that time, and I don't think it's changed, we're the third least populous state in the Union per settled square mile. The lack of people has a very important implication for these broad-based taxes that we're kind of in love with, that is income and sales. As I have said to other committees since I did that study, there is no revenue problem in Nebraska that 2 million more people wouldn't solve. Now dropping 2 million people into the state suddenly creates a lot of other problems. I understand that, but just mathematically, you know, that's our issue. We simply have too low a population base to generate the sales and income taxes that we desire to collect. [LB233]

SENATOR SCHUMACHER: So are we stuck with property taxes? [LB233]

JOHN CEDERBERG: This is a state that has a lot of property to tax and that's, you know, the economic reason why we have a property tax problem, yes. [LB233]

SENATOR SCHUMACHER: Always good to talk to you. Thank you. [LB233]

SENATOR SMITH: Thank you, Mr. Cederberg. Senator Groene has a question for you. [LB233]

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SENATOR GROENE: Thank you, Mr. Chairman. So you seem to follow statistics. That's one of my favorite areas too. Can you explain to me how my county just had headlines in the paper, we lost 725 people, but my Chamber tells me we have a work force housing shortage. So if you take an average of four, in a family, and you divide that in 725, that's 180 residences that should be empty. Am I missing something here when they tell me we have a work force housing shortage? [LB233]

JOHN CEDERBERG: One of the things that you're probably missing in this (inaudible) or in that disconnect, and it is a disconnect, I understand, is that many of those 700 people...and 700 is not, I mean it's important to North Platte, but... [LB233]

SENATOR GROENE: Forty thousand people in the county. [LB233]

JOHN CEDERBERG: Yeah, there you go, 40,000 people (inaudible). So many of those people were young adults who were living with their parents, graduated from high school, went somewhere for additional education and got counted while they were doing that, but then no longer get counted when they settle in a more populous area. And so what has happened is, that while you're losing people, you're not emptying residences. [LB233]

SENATOR GROENE: Well, I would argue that with the railroad, because they're not hauling coal, is laying people off. And everyone I knocked on a door, which is a real poll, retired people are retiring somewhere else. [LB233]

JOHN CEDERBERG: Yeah, and, well, we have a lot of that. You know, I grew up, Senator, in the little town of Osceola which at the time I was a teenager was about 1,100 people, now it's down to about 900 people. And I can drive around the village of Osceola and identify the family homes that still are occupied, but they are occupied by the people my age. And the younger people that have settled elsewhere are, you know, are gone, and so that's why you don't have empty homes. Now the other deal is that, absolutely, you have a situation where retired people are moving where their children went, where their adult children went because they need the assistance. I mean when my father-in-law passed away, we moved my mother-in-law from Maryland to Nebraska because she needed my wife's assistance. And that has a lot to do with me. [LB233]

SENATOR SMITH: Thank you, Mr. Cederberg. Additional questions from the committee? I see none, thank you for your testimony today. [LB233]

JOHN CEDERBERG: Thank you. [LB233]

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SENATOR SMITH: We continue with those wishing to testify in a neutral capacity on AM707. Seeing no additional neutral testimony, that concludes our hearing for the day on AM707. Thank you, everyone. [LB233]