Revenue February 1, 2018 Room 1524

SMITH: [00:00:01] Good afternoon and welcome to the Revenue Committee public hearing. My name is Jim Smith and I represent the 14th Legislative District, in Sarpy County and I serve as Chair of the committee. The committee will take up the bills as posted on the outside of the room. Our hearing today is your public part of the legislative process. This is your opportunity to express your position on the proposed legislation that's before us today. To best facilitate today's proceedings, I ask that you abide by the following. To begin with, if you would please silent or put on vibrate your electronic devices or phones so as not to interrupt or interfere with a person testifying at the time. If you're going to testify, you can move towards the front of the room. Once we have someone else in the chair, go ahead and move up towards the front of the room so we can keep things moving fairly well. The order of testimony is the introducer of the bill at hand, then we will have proponents, then opponents, then folks wanting to testify in a neutral capacity. And then we will have closing remarks by the introducer of the bill. If you will be testifying, please complete the green form and hand that to the committee clerk when you come up to testify. And the green forms are in the back of the room. If you have written materials that you would like to share distribute with the committee, you will hand those to the page when you come up to testify. If you need copies, we will need 11 copies of anything that you would like to distribute. If you need assistance making those copies, if you would let the page know ahead of time we can have those copies made for you by the time you get up to testify, we'll have those ready to distribute. When you come up to the table to testify, you will need to both state and spell your name for the record so we can get it correct into the record. The microphones on the table are really more for the transcriber to record your testimony than it is to project your voice. Seeing the number of folks in the in the audience today, we're going to use the light system. We're going to go on a five minute limit. That means that the green light when you come up to begin your testimony the green light will be on for four minutes. Then it will turn to an amber color for one minute and at that time your five minutes will have concluded it will turn into a red color. When it turns to red, if you're still on your testimony if you would wrap that up, we would greatly appreciate it so that we can make certain to move through the testimony. We have four bills today. I know that the first bill and the last bill probably are going to be the ones that have the most testimony. But that's not to say how it will go. There's always a surprise in there, but we do want to try to move through and make certain everyone has a chance to speak. If your remarks were reflected in previous testimony or if you would like your position to be known but do not wish to testify, we offer that you sign the white form at the back of the room as it will be included in the official record of the hearings. I'd like to now introduce the folks around the table, committee's staff first to my immediate right is legal counsel Mary Jane Egr Edson; to my immediate left is research analyst, Kay Bergquist. And to my left, at the far end of the table, is committee clerk, Krissa Delka. And Ms. Delka is the one that will be taking your green forms and assisting you when you come up to testify. The committee members with us today will introduce themselves. I'm going to start with Senator Harr.

HARR: [00:03:48] Burke Harr, Legislative District 8, representing parts of Douglas County.

SCHUMACHER: [00:03:52] Paul Schumacher, District 22, representing Platte and parts of Colfax and Stanton Counties.

SMITH: [00:03:57] And Senator Brasch is going to be absent today, she's traveling.

FRIESEN: [00:04:02] Curt Friesen, District 34, Hamilton, Merrick, Nance, and part of Hall County.

LINDSTROM: [00:04:03] Bret Lindstrom, District 18, northwest Omaha.

GROENE: [00:04:07] Mike Groene, District 42, Lincoln County.

SMITH: [00:04:11] Very good. And we have one page with us today, Heather Bentley from Miller, Nebraska. Heather is a junior at UNL and she's majoring in agricultural economics. So Heather is here to help us and to assist you as well. And later in the afternoon, my apologies I'm going to have to leave the committee. In that time I'm going to turn you over to Senator Friesen who is the Vice Chair of the-- the committee and so he will take over after that point. Also please remember that senators around the table have commitments in other committees, so please be patient with us. We will have to come and go during the afternoon. That doesn't mean your testimony is not important to us, it's just that we do have commitments in other committees and we have to see to those. And with that we're going to start with our first hearing of the day, LB1108, 1-1-0-8, to be introduced by Senator Burke Harr. It relates to certain tax credits, change in sales tax rates, and providing for school foundation aid and certain grant programs. Basically , we're dealing with workforce development. So welcome, Senator Harr.

HARR: [00:05:26] Thank you, Chairman Smith, fellow members of the Revenue Committee. If you do not know my name is Burke Harr, H-a-r-r, and I represent Legislative District 8, parts of Dundee, Benson, and Keystone neighborhoods in Omaha. I come before you today with a bill that's kind of my doctorial statement for my time in the Legislature. And what it is, is I've listened to, and I'll come back to the specifics, the-- for the last seven years, seven and a half years, committee hearings about what do we need to be doing to make this state grow? When I came in here in 2010, the rural area was really carrying the state. We had a problem nationwide with our economy and it was some federal funding, and quite frankly, great corn that carried the state. And over time, that switched and our economy and our rural part of the state has deteriorated because the price of corn has gone down. At the same time, there is new technology and mechanization in our rural parts that are causing additional challenges and changes within rural Nebraska. And as a result, we have a situation that we've heard about yesterday and we heard about last week where we have our rural brothers and sisters are having a real tough time with property taxes. And is probably carrying a larger burden than they need to or should. And so I look to see what is the future and how do we grow the state while still supporting what we have. And it came to me that it's really about workforce development. It's about having shovel-ready workers so that when a business looks to come here, looks to start, looks to expand, they can say there's a workforce there. Right? I mean we are in what should be a great economic cycle. We have low unemployment for a number of years. And yet we still have budget shortfalls. And yet we aren't growing. And even though we have a plethora of jobs, people aren't moving here. And so you have to ask yourself, and there's a misalignment between jobs available and the workforce. So how do we better align that? How do we address the needs today? And how do we address the needs of tomorrow? And I had a meeting and I made my pitch for workforce development and an individual said, Burke, that looks like a good idea, but how are you going to pay for it? We don't do deficit spending in Nebraska, constitutionally we can't. Now I could push it out two years in the future and say we'll pay for the future. But I had to swallow hard and do something I didn't want to, and that's to say we need new revenue. You sometimes when you grow a business you have to invest in that business. You can't just cut your way to greatness. And so I swallowed hard and I said, I'm going to put a half-cent sales tax on and we're going use that money for economic development. And I made a big mistake when I did that; I didn't even tell my twin brother. And let me tell you, I got an earful from him, hey, before you do something as crazy as this, call me, I'll talk you out of it. But I think it's that important. And I think we're at that point in the road where we have worked hard to make our budget as lean as possible and we have pushed down onto our brothers and sisters in county government, in the schools, and maybe not funded them as well as we'd like to. And as a result, they've had to raise property taxes. And so I think we're at that juncture where maybe we need to turn the dial a little bit, and maybe we need to take on a little more responsibility. And so when I said I wanted to have economic development and I want to grow the state, I'm serious about it. But it's not just giving someone a job. It's about starting when they're 18 months old. And it doesn't end until they retire. And we are living in a society now where you are going to be consistently changing jobs and retraining yourself. And this bill takes that into accountability. We start with early childhood development and the train gets moving. And we make sure that our public schools are properly funded. I provide money for that. And then we chug along and we get to the next juncture and you have a chance to get off and you can go and get just-in-time job training, and I'll go into detail on these more. And it's less than an associate's degree; less than a certificate. If you want to get off there, great, we have incentives for you and we want you to get that. Because guess what, in this state, high school diploma is the break-even point. If our citizens were a product, that's where we break even. Below that you're probably going to be a liability to the state. You're probably going to be in and out of a job. You're not going to be paying a lot of income tax. And as you're in and out of jobs, you're going to have unemployment and you're probably going to take advantage of our HHS system in one way or another. So we want to give you a little further, and that's what this just-in-time training does, gets you a little further. Get a little better paying job. Then we go to the community colleges and we say, hey, what can you do to make sure our workforce aligns with the needs of society? So often when we talk workforce availability we only talk about the college grad. We keep it going. And now we are college grads; 58 percent of our college grads from our university system, University of Nebraska, vaporize. They are adrift. They leave the state. Excuse me, stay here; 42 percent leave, 42 percent leave. We've invested in these workers from pre-kindergarten, 18 months, until they graduate. And then you know what happens? We don't have the economy. We don't have the jobs for them. We may not have the jobs for them because they want to be a teacher, a secondary job that's population based, a noble profession. But we may be producing more teachers than our population can support because we're decreasing or because we aren't growing as fast as they're producing them. So at the end, I produce what's called this just-in-time job training. And what it does is it incentivizes new primary jobs out there; new jobs that help expand the economy, that call them the jobs of tomorrow because I don't know what they are. You know there are a lot of jobs today. I don't know what they were, are now, but I know they didn't exist 18 months ago, 5 years ago, 10 years ago, let alone 20, 25 years ago when we passed LB775. But this is about saying how can we work together to incentivize investments, and what's our greatest asset in this state, our people. And that's what this whole bill is about it is investing in our people. We have been blessed not to have a bunch of ocean. We have water, it's underground; we can't look at it. So when we want to do something, we don't have a lot of distractions like mountains and water. What we have is we have a reputation for hard workers and that's a great thing. But how do we leverage that? Well this bill is meant to be a catalyst. It's not the solution. At the end of the day, the people who are going to make a difference are not you and I in here as state senators, it's the taxpayers out there who are taking the risk, who are trying new ideas, who are building the builder trends, who are building the Toasts, who are building the Hudls, right. The risk takers, they're ultimately the ones who are going to determine the success of the bill. And it's the parents who make sure their kids stay on track. But what we can do is provide incentives, right. My dean of discipline always used to say there's only one kind of discipline--self-discipline, and we're not providing that self-discipline. But what we're doing is providing the parameters so they know what is expected and what we think is the right way for our economy to grow. So I'm going to go through the sections. The first part I call the Yes to Occupation Learning Opportunities Act. Yolo. And it starts with that just-in-time tax credit. Now if you had a chance to look at the fiscal note and read it, I'm going to take a second and brag, I think it's the longest fiscal note I've ever seen. So I'm glad--it's very thorough and well done. In there, DED says, hey, there's going to be additional cost. Tax credits are more expensive the grants. Now let's take a step back and think what that means. That means if DED gives you a dollar, there's less oversight, there's less accountability for that tax dollar, not my tax dollar, not your tax dollars but the taxpayers' tax dollars benefits the tax credits. That's ludicrous. There should be the same level of accountability if I paid for a program whether it's originally the IternNE, with the grant, or if I pay for it through a tax credit, yours should be the same level of accountability. There should not be an additional cost. There should be the same level of regulation. There should be the same level of oversight. But there isn't. So I'm proud of the fact that this bill requires more oversight of the spending of tax dollars. If nothing else that makes me happy. So the just-in-time payroll tax credit is the only part of this bill that I can say is maybe my baby. Everything else in here is, I think someone referred to it as a Christmas tree this morning at the Nebraska Economic Developers breakfast, it's not a Christmas tree, but there is no one solution. What there are, are many different for different people in different parts of their life. So the just-in-time tax credit, 5 million dollars refundable. It allows Nebraska employers to apply for it if the employer-- must employ the employee for 35 hours a week for a minimum of six months. And then they must do a certain level of training, and the tax credits will cover 75 percent of that training up to a 1,000 dollars per employee, or 2,000 if that employee is homeless, TANF, temporary assistance, veteran--somebody who served our country, a felon, let’s give them a second chance, let's take them from being a liability where we're paying for their housing, three cots-- or “three ‘hots’ and a cot” to actually earning money; free and reduced recipients and Pell grants, they get 2,000. Now you must provide training, and that training is 40 to 160 hours, less than a certificate, less than an associate's degree; and then you must pay that person. Right? What we don't want to do is have programs, in the past we didn't necessarily have the best incentive, just hire someone, we didn't have dollar amounts. So this is you have to pay them 240 percent of the federal poverty level for an individual. Currently that's about 29,000 dollars plus health benefits. Now if you don't pay health benefits, and there are those who can't afford it, it's 275 percent of poverty level, or 33,165 dollars. Again, good middle class jobs, people who will pay taxes, people who have stability in their life, who will want to go to work because Ronald Reagan had it right, the best social program is a job. So this requires-- employers pay a decent wage; employees to have a certain level of proficiency and it provides the ability to do that. Next is InternNE, already exist. Doesn't have a dedicated cash fund. So what does that mean, right now, because we're in tough budget times? There is no InternNE. There is no money for it. We had some money set aside, 1.5 million dollars, spent in other ways, taken, not there. A program that when you talk to businesses they say they like.

What we do is we say everything that's before 5,000 for an intern, or 7,500, again, because we want to help those that need help the most. If you're a Pell Grant or a free and reduced lunch, 7,500 dollars, because you're going to need a little extra training, the soft social skills that was make fun of for in my YOLO one. But we allow for that extra training, for that extra time. And then we have the post training tax credit, also refundable, tax credit, greater accountability, new money. Right? By the way, all this is new money. So to say that this hinders ability is probably not accurate. All this is new money for job development. There is no money in InternNE right now. So while the program exists, it doesn't in reality. New money for just-in-time, new money for post-job training. We do a great job of getting kids to the finish line, of getting a job. But what do we do to get them over the finish line to that job, incentivize that employer to hire them? Well that's what the post training tax credits does, 10 million dollars. Nebraska, if you hire that intern within one year, excuse me, one month to complete that internship, you employ them for a minimum of 40 hours a week, and now you pay them a little bit more. You've got to pay them 300 percent of the federal poverty line, 36,180 dollars, plus health benefits. Or again, if you don't provide health benefits, 42,210 dollars. Again, good jobs, good starting jobs. Just-in-time-- if you've lost your job, I'm going to take a step back, you've lost your job, there's training now for you to get a new job. And one of the things that I really, really love about it is that we say, well, in order to get this it has to be a high demand job. If you look at your fiscal note on page 4, I believe, yep, page 4, DED in their comments state the YOLO Act requires continued labor availability and skills gap studies to be completed; 250,000. Now I might disagree a little bit with that, but let me tell you, I'm kind of proud of that. We should always be doing a labor ability and skills gap study so that those people who don't have a job know where the needs are so that our community colleges can know what they should be providing training in. This is-- I am-- I want to see this study. I think this is a great study. And that's where we're aligning again this misalignment that we have between available jobs and the labor market. That study will help align, get our boats rowing in the same direction. And then because I want to incentivize growth across the state and not just in the DSL, Douglas, Sarpy, Lancaster, I say a third of the money goes to each of these-- goes to each of the congressional districts. And then within each congressional district, 50 percent go to those with 50 or more employees, and 50 percent goes to those with-- oh, excuse me, 50 or less goes to-- half to go to 50 or less, and half goes to 51 or more so that it helps everyone, your startup business and your big business is going to hopeful hire these kids. But I also don't want money sitting on the sidelines that can be used; so you have to apply within the first six months. If you don't apply in the first six months, then we open up the pool across the state so that again we make sure this money is well spent and that we make sure these people who want jobs and the people that want to hire them align. And then I have the jobs of tomorrow innovator tax credit. Kind of reminds me of Pigs in Space--jobs of tomorrow, tomorrow. And what that is, is employers start businesses working with our universities. Our universities have a great amount of knowledge within our professors, within our workers. But it's sometimes locked. What can we do to release that knowledge and figure out how to monetize their knowledge and to monetize the facilities they have for teaching kids, and maybe can also be used to figure out new and innovative ideas. So it's a matching grant fund. Again, it's on a first come first serve basis. It's limited to a million dollars per partnership so that again we can expand it. And then finally, because you can have the greatest job in the world, not everyone works at home in their pajamas, we're going to need roads. This state was founded on insurance and roads and banking. That's our three core business, and of course ag. Right? But if we don't have good roads, ag is going to sit there, that corn is going to rot at the farm because they can't get it to market. So I allow for additional 9 million dollars to go into the infrastructures bank which was founded through the assistance of Senator Smith and Governor Ricketts. And what that does, and sometimes it's better to be lucky than good, this leverage is what our President talked about in his State of the Union, public partnerships where state dollars are invested with federal dollars. There's going to be new money out there, folks, and we're going to have a new source so that we can leverage this money even further. And the original part, the YOLO part of the tax, by the way, think about what it does, it also provides what our Governor-- or our President talked about in his

State of the Union address, workforce development. He talked about it; he said the importance of it. So I'm working with him. And then another half of the light rail-- or the sale for motor vehicles goes to light rail transit because we need to have workers to be able to get to their job, and not everyone can afford a car. And young people want to see light rail transit. And there is great development. You look wherever light rail transit put in, there is development. And that's a great thing. Now that's on the work side. We also-- property tax relief is very important. And so I start, take a step back and I start with early childhood development, start with that kid 18 months. We have a program, Senator Mello, who's in the audience here, introduced the bill; five year, five million cap. What I do is I look at and I say you know what we want to take-- and what they do is they rate early childhood providers and they rate from educators based on their educational level and I say we want the high level, we want to incentivize the high. So I don't just say 5 million to 10 everyone gets the same. What I say is, the higher the level you have the more credit you're going to receive, whether you're a level five early childhood center or a level 4 which is a match for early childhood educators. I give more money; I give tax credits because we want to incentivize these people. My kid goes to early childhood and I can see the difference between them and other kids. And the head of our early childhood center has a master’s degree, working on her doctorate. If I told you what she made, she'd be embarrassed and I'd be embarrassed. The only good thing I can say about what she makes is that it's more than 12,000 a year, but not much, not much. And then I said, what can we do to help our property taxpayers while helping our schools? Where's a win-win? And so some of my urban friends don't like this, but I said we need to get foundation money. And it starts out at-- if it were this year, it would 225 dollars a kid, almost exactly, be 240-- it would be 224.87-- 225; and it will grow. As our economy grows, because of this program, but also because we maybe start collecting Internet sales tax, but we also just start growing. That money goes to increase, it goes to schools. And then we let those local officials decide, do they want to lower their property taxes? Because ultimately that's who has to make that decision. We can sit here and give credit but that's where you have a built-in accountability. If you look at the letter the Governor wrote about Senator Erdman's bill, in there he said it doesn't do anything to incentivize local businesses to keep-- entities to keep their costs down. And he's right. What we're going to provide some money and then the taxpayers can say you got more money, you need to give some of that back to us. And it's going to provide that incentive to go to those meetings and say turn that money back. So I think I have covered-- oh, you know what I forgot is what the community colleges, I mentioned them earlier, it's Nebraska Integrated Education and Training Grant program. That's a bill Senator Bolz brought and it's working with the community college. And I provide 6 million dollars and I incorporate it in this. Again, none of this is my idea. This is taking the best of what I've seen out there and putting it-- you can call it a Christmas tree; you can call it whatever you want, but it's creating a new entity. And that's working with our community colleges. Six million dollars or a million dollars per community college of ways of finding ways for community colleges to provide training again to train our workers so that they're ready for the jobs that are available out there, to work with private industry. This bill, because, again, folks we're in tough times, we're cutting the budget by 200 million. I don't know how much more we can afford to cut. And I don't know how much, if we pass the Governor's bill, how much more we can afford to do, but I think job training is important, and I think this worked in conjunction with what the Governor is doing. But it has a pay for mechanism in it. And I know that's tough. I know a lot of people don't like that. But we got to find ways to pay for what we have. And that's running government like a business is saying we're going to pay for what we have. We can't go into debt, we can't borrow. Yes, if we invest, it will be a return. So that's why I have a sunset of four years on it, because I think this will pay off in four years, because I think they start to see new growth. And, quite frankly, I think our friends in ag-- it seems farm cycles runs in seven year cycles and we're really in year four of a downturn and they're hurting and they're hurting hard. And maybe we'll upswing a little bit this year, maybe a little more, but what I want to do is as we-- I want to give it four years, which is really eight years from when the row crop started, because cattle were a year behind, but what I want to do is also give us a little time to replenish, to be ready so that we aren't dependent on that sales tax, so that in four years it sunsets, it disappears, and hopefully our economy is rolling well enough that we can say we don't need that half cent, or we can say that program worked, this program didn't, let's eliminate that program. But I want to give enough time for those programs to really get their feet under them and to start to see results. So that's why I put a four-year pay for in there and then these babies are on their own and they're going to defend themselves and figure out are they worth the dollars. With that I would entertain any questions you may have.

SMITH: [00:32:11] Thank you, Senator Harr, for your opening on LB1108. And going back to your initial comment, your original comment, don't we all wish we had twin brothers, twin siblings to keep us out of trouble.

HARR: [00:32:25] You have someone to blame.

SMITH: [00:32:26] Yeah. But-- but I really do appreciate the conversation you're having here and the opening on this because I'm at 100 percent agreement with you that workforce development is absolutely critical in order for us to grow our state. And you're not going to get any disagreement out of me with that. And I wanted to say how much I appreciate you being a champion for that. I know you have been for the eight years we've worked together; so thank you very much for that.

HARR: [00:32:55] As have you.

SMITH: [00:32:57] Well the one thing I think we agree on that, and we probably don't agree on the pay for as how we get there. I do believe that sometimes you have to invest in order to get the results. But recognizing we are in a difficult fiscal times that we are, looking at that list that you went through, it's hard for me to say which is more important than the other. But obviously there's got to be some prioritization. If there is a limited amount of resources, where do we start first? What gives us the most impact or the most benefit from the initial investment? Do you have-- have you given that any thought?

HARR: [00:33:43] I would probably, having learned from the Governor yesterday, I'd probably eliminate the pay for and get rid of the half cent sales tax.

SMITH: [00:33:55] Okay. All Right. And then on because the training approaches that you described, they're for different points in your life cycle or your career cycle. So is there one of those that's more important to focus on as a state right now to get us going than the others? Are they all equally as important?

HARR: [00:34:17] You know in the Bible, the story of King Solomon. And you have to split that baby. And that's difficult to do and I really don't want to play King Solomon.

SMITH: [00:34:28] Yeah, all right. And that was an honest question for you, I'm just trying to understand. If it comes down to what it-- if there's a limited amount of resources, where do we-- where do we start with this? Where do we go first? And that's a--

HARR: [00:34:43] And to be in fairness, probably the jobs of tomorrow, because that's 31 million that's a large portion. But it's an important portion because I think that's where you'll, at the end of the day, have-- once it's up and going, will have the highest return on investment. But it is a large sum.

SMITH: [00:34:59] And I think your bill recognizes that there is a large amount of underemployment in our state.

HARR: [00:35:06] Yes.

SMITH: [00:35:07] So there is there's a lot folks that have two or three jobs and sometimes it's by choice. They just like the freedom that comes with maybe their own irregular work schedule. But I think what you're describing here is a way to pull those people that are underemployed, but not by choice, out and giving them a better-- better skills to be able to have higher paying jobs if they quit one job.

HARR: [00:35:33] Thank you, well said. I mean I have two jobs and I will tell you that is by choice, but it isn't for everybody. And we have one of the highest work-- worker-- hourly worker rates in the country. And I think, you know, and as you look at our GDP, our GDP since really the last 20 years, is it's called alligator because our GDP grows, but our base is so much lower that that growth is slower and slower and everyone else is higher so we have a difference in GDP that continues to grow. We have to find a way to close that gap.

SMITH: [00:36:10] Well I think both-- both you and I will be out of one of our jobs next year so we both will need some retraining.

HARR: [00:36:15] There we go, yes.

SMITH: [00:36:16] I have to get back in the marketplace. Have any other questions for Senator Harr from the committee? I see none. Oh, Senator Schumacher.

SCHUMACHER: [00:36:27] Thank you, Chairman Smith; thank you, Senator Harr, for bringing this to us. If you feel you can make the bill better by reducing the sales tax, taking that half cent away, would it be better still if we reduced sales tax by another half percent?

HARR: [00:36:45] Well, as I have learned, it's always hard to determine where that line is as far as return on investment. How far can we cut our self to greatness and when do we have to invest. And it's difficult. And I don't know the answer. I think the better answer is to continue to invest in the workers through the workforce development program that I have created in conjunction with many others.

SCHUMACHER: [00:37:14] You entertained the idea of, at least for a bit here, of raising the sales tax. And yet when the Department of Revenue, a couple years ago, I think more than a couple years ago now, did an analysis using his train model as to what tax produces the best bang for the buck if you cut it sales tax produced the best bang for the buck. So why did you eliminate income taxes?

HARR: [00:37:40] That didn't stay on the page very long by the way. I don't know if you noticed.

SCHUMACHER: [00:37:45] I printed it out before it went away.

HARR: [00:37:50] Why did I choose sales tax? Political efficiency.

SCHUMACHER: [00:38:00] So you chose income taxes, and we could be cutting income taxes instead of cutting sales taxes.

HARR: [00:38:04] Right. By the way, the Governor is exactly right, you can't lower one-- raise one tax to lower another tax. And that's not what I'm trying to do here. What I'm trying to do is invest in our workers. And we have to find new money for that because I do think we have been very frugal and efficient with the taxpayers' dollars. But I do think if we need to make a change and if we're going to grow, and you know, shut that alligator's mouth, we're going to have to invest new money. And so understanding that, I bit hard and I said I would introduce a half cent sales tax.

SCHUMACHER: [00:38:42] And are you standing by the-- I mean we were kind of kidding back and forth about the-- whether you're going to cut the sales tax. Is it your intent that this bill in order to fund these things we raise the sales tax half a percent? .

HARR: [00:38:55] As hard as it may be for me to say that, I think that's a good use of money. And I'm willing to take the slings and arrow that comes with raising taxes because I do think it's that important to this state.

SCHUMACHER: [00:39:06] Thank you, Senator.

SMITH: [00:39:09] Senator Friesen.

FRIESEN: [00:39:11] Thank you Chairman Smith. I can almost feel your pain. So when we talk workforce development, it's been mentioned a lot, we talk about it a lot.

HARR: [00:39:24] Yeah.

FRIESEN: [00:39:25] We look at the high schools and when we hear from community colleges and from the university system, our kids coming out of high school aren't ready, they're not prepared. So to me when we talk about high school education, I mean I should think that when someone comes out of there they should be ready to enter the workforce if they so choose. And if they don't want to go on to community college and just want to go to work they should be ready to do that. An employer hires them and everyone knows you have to train your employees. I mean I don't know of a single employer who doesn't spend time training an employee. The CEOs tell me they just want a warm body that shows up at 8 o'clock every day. You give me that person and I'll train them. So where does-- what stage does your workforce development come in? What age group? What's the scenario that's happening that we need this.

HARR: [00:40:26] You know, and I appreciate that question because last year I had a bill to bring in that said, hey, we need to work on what you talk about warm bodies, we'll train them, but they have to have a good work habit and that was soft social skills, teach them the soft social skills. And you know how much support I got on the floor? Next to none. And so you are exactly right, we need that. I'm not denying that, and I came with that and I got rejected. And I need more people like you out there pushing for it.

FRIESEN: [00:40:57] But do schools-- should schools be doing that? Are we, are we missing something? Shouldn't that be part of--

HARR: [00:41:07] Sure, accountability is very important and we need to build in some accountability, there's no ifs, ands, or buts about that. I think we're doing good things. I think a lot of times it's easy to blame our schools for what's going wrong. And you know what? It starts at home. And we need those parents at home teaching those kids. Okay? That's number one. But, two, we need in our schools, not denying that.

FRIESEN: [00:41:27] I'm not blaming the schools.

HARR: [00:41:28] What I'm saying is when you have those kids at home-- or at school, yes we can be teaching that. I left out probably an important part, the Governor's youth talent initiative which gets then started into the workforce in seventh and eighth grade, it gets kids thinking about it. And yes; so the answer is, there is no silver bullet. Yes, kids need to be involved-- schools need to be involved. You know, do we think-- do I think we need more shop programs? You bet I do. And that's where that two hundred twenty five dollars can go towards. Do I think schools maybe need to teach additional programming on soft social skills? How do you work hard? I don't know how you teach that at a school other than by having high standards from your kids. I don't know if that requires more money. But yes we need to do that. But you can't learn if you're hungry. So does that mean we need to fund some of our other programs over here? And you can't learn if you're injured, if you're sick. Does that mean we need to fund more expanded Medicaid? I don't have the answers for that. But what I am saying is there is no one right piece, but our schools are hurting right now. I don't think you'll find a school district out there that is fat anymore. And we have a lot of schools that aren't receiving any state aid and their hearing from their, from their constituents that they can't afford any more property taxes. And these are unequalized school districts. And so there-- they may not do that extra A.P. class that challenges that kid, that teaches that kid to learn more, to be a better learner, to be a better worker. And so this provides that aid so that those schools that can make a decision, do we want to have an AP course? Do we want to have a shop class? Do we want to have a dual language half day, you name it, German, half day English, whatever it is to challenge those kids. Some of these kids just don't know how to work because they don't have to because there isn't an ability within our schools to teach both the high learners and the low learners and the middle learners because there just isn't enough money to go around. So I mean there's no one right answer. I wish there were. I wish I could sit there and say yeah we can do this and boom. And that was some of the criticism I took from my bill last year was you can't teach kids through school and I took that to heart. And so I said then I'm going to address this from a different direction. That's how I came up with-- I'll call YOLO 2, because your concerns that you state right there, I didn't have an answer. I don't know if you can teach it in the schools.

FRIESEN: [00:43:54] What so what age group are you targeting? Is it the high school kids coming out of-- or coming out of community college, or all the above?

HARR: [00:44:01] Everybody. Right? So we start with 18-month olds and we make sure those kids are on track to learn and to succeed so that when they enter kindergarten they're on track, because if you're behind in kindergarten, it's going to take you. And every step of the way that you're behind takes you longer to catch up. And then you've got to be ready at third grade. You know Senator Linehan came with her bill holding kids back if they can't read from third grade. Now, I don't necessarily agree with that. But there is some-- not some, there's a lot of validity to the fact that you learn to read through K-3 and then you learn from reading after that. If you don't have that basic skill down, it's difficult. Right? Do we have the funds to make sure that every kid is getting the proper education? Some would say yes, some would say no. If there is proper funding with this money, they can cut their property taxes. If there isn't, they could take it back and forth. There is no-- this is a program that works with a person from 18 months all the way-- that train starts at 18 months and it chugs all the way along through high school, and then you have a chance at that just-in-time. But that just-in-time isn't limited to those kids. It can go to a homeless person, go to a TANF person, a 65-year-old getting out of prison. Nothing would stop that. Right? And you have, again, job-- the internship, that's addressing those kids at the community college and at the-- high school, community college, and college level. It continues on and the internship program, and there's continued learning because nobody holds a job. It's very seldom that you hold a job your whole lifetime anymore. Right? We have term limits, so ours are four and eight years. But in the world of economics, jobs are being eliminated and changing constantly. We had a man come in here yesterday who technically is in the same industry as his father. He's a farmer. But he talked about how much farming has changed. And he talked about how his dad quit in eighth grade and used his back and it was very labor intensive and that farming has changed and grown. Well that's true with every industry. It's not just farming that's grown and evolved. And you're going to need that continuing education, that's that job training, the LB515, the part I have in here, that's the-- maybe you go back and get some just-in-time job training. But this is-- we live in a quickly evolving world that the only thing constant is it's going to get faster and you're going to have to learn how to relearn an occupation. And so, yes, this isn't aimed at-- this is the beauty of it is it's not aimed at that kid who graduate high school, it's not aimed at that kid graduating college. It's aimed at the whole sphere of workforce development. And again, there is nothing in here that's a handout; you've got to earn everything in this. This is not-- this is about people who have taken initiative upon themselves. We are a catalyst. We are the ones saying if you do this, we will reward you. But there are no upfront money of here you go, well we hope you do something great with it. It's about rewarding investment. And that investment, nine times out of ten in this is investment in the individual because that's the greatest asset we have.

FRIESEN: [00:47:16] I'm probably finished now. Thank you.

SMITH: [00:47:24] I see no further questions. Thank you, Senator Harr, again for your opening on LB1108.

HARR: [00:47:30] For the record I was still shorter than Senator Stinner's bean bill introduction.

SMITH: [00:47:38] Point, point-- all right, we're going to start with proponents. This is in support, proponents in support of LB1108. You're here to testify in support of the bill?

RICHARD SCHMELING: [00:47:52] I am.

SMITH: [00:47:52] ok, very good. Welcome.

RICHARD SCHMELING: [00:47:58] Thank you. My name is Richard R-i-c-h-a-r-d, last name Schmeling, S-c-h-m-e-l-i-n-g. And I have a sign here that admonishes me do not move this table.

And I looked at the table and I don't think I could move it, it looks awfully heavy. I am here representing two groups: one of them is ProRail Nebraska, and the other is Citizens for Improved Transit. And I won't speak to the-- much about the jobs aspect of this bill, but I just note that here in the state of Nebraska, we have some existing assets that are going to be great employment generators. Kawasaki, out on the northwest edge of Lincoln, just got a contract with the New York metro subway system and that contract will produce cars through the year 2021. Senator Groene had to leave, but he's from out in the North Platte area. And North Platte, we have the Bailey yard and the Union Pacific diesel shop, it's the largest railroad classification yard in the world. That railroad employs a lot of people. They have a good partnership with the community college out there, but they're constantly looking for skilled workers. And we have many other examples here in the state where we have employers and the message that I've been getting from reading all the material in the press is that we don't have enough trained workers. We need to supply more workers. Now let's talk a little bit about the transportation aspect of this bill, because that's what I'm the most well-versed in. What we're seeing is we're seeing a change, a shift in transportation. And this has been going on for some time now, but we can quantify it. Remember when you were just about 15 years old and in about a year you'd get a driver's license. What was the first thing you wanted to do? You wanted to get a car, right, a car of your own. And 20 years ago, the young people that were growing up that's what they wanted to do, they wanted to get a car. Now we have a different group of young people growing up known as the millennials. The millennials are different. Twenty years ago, 92 percent of the people that attained driving age got their own car and drove it. Today with the monorail's we're down to 76 percent. The millennials tell us that what they want is they want to live where there's a good public transportation system. And we don't have that in Nebraska. We've kind of scrapped it through the years. So ProRail and Citizens for Improved Transit strongly supports Senator Harr's bill, and especially the portion that talks about some funding for light rail. The head of the Department of Transportation recently said that in the next 20 years we're going to spend 12 billion dollars on streets and roads. How much are we going to spend on other modes of transportation, bus systems, light rail and so on? We need to kind of catch up with the rest of the world and the rest of the United States, and we need to get serious about public transportation here in Nebraska. And this bill provides some funding and a vehicle to do that. Not only is it important for us to-- to have people stay here in Nebraska and be trained and work at jobs, but we've got University of Nebraska-Lincoln, University of Nebraska-Omaha, University of Nebraska-Kearney, all these state colleges, and they're cranking out graduates. And it would be a shame for us to bleed off all that talent to another state. And I think this bill is a way to provide opportunities for people to stay and to have good and productive lives. And that concludes my remarks. I'm open to questions if anybody has any.

Smith: [00:52:29] Very good. Thank you, Mr. Schmeling, for your testimony today. Questions from the committee? I see none. Thank you again for being here today. The next proponent of LB1108. Welcome.

DANIEL DUNCAN: [00:52:49] Thank you. Good afternoon senators. My name is Daniel Duncan, D-u-n-c-a-n. I am the executive director of Nebraska Innovation Campus Development Corporation. However, today I want to make clear that I'm here to testify as a private citizen and not on behalf of the university or the development corporation. Specifically, my comments are limited to the Jobs of Tomorrow Act in Sections 9 through 13 of this bill. I have looked at what successful regions across the country have done to stimulate economic development and how places like Innovation Campus can be a part of that. And I have a summary in front of you from the Association of University of Research Parks report that was compiled by the Battelle Corporation that really gives you a nice synopsis of several studies across the country. And really what they found is that the importance of public investment catalyzing public/private partnerships, specifically with research universities is a major key in developing economic development across several different economies. And I'm not going to read that to you, you can read on your own, I know your time is precious, but I support the idea behind the job-- Jobs for Tomorrow Innovation Act. As you can see, it's not well-defined. And Senator Harr has asked me to help in bringing some information forward, as this bill moves forward, to maybe refine that and define some areas that would be advantageous for the economic development of our state. So with that I will conclude my testimony and answer any questions if you have them.

SMITH: [00:54:55] Very good. Thank you, Mr. Duncan. Questions? Senator Schumacher.

SCHUMACHER: [00:55:00] Thank you, Chairman Smith, and thank you, Mr. Duncan, for appearing today. How many innovation campuses are there associated with universities across the United States?

DANIEL DUNCAN: [00:55:09] I don't know the number across the United States. The US and Canada, there's about 200; most of those being in the United States.

SCHUMACHER: [00:55:19] Thank you.

SMITH: [00:55:22] I see no further questions. Thank you for being here today and for your testimony. Next proponent. Welcome.

JON HABBEN: [00:55:37] Thank you, Senator Smith, members of the committee. My name is Jon, J-o-n, Habben, H-a-b-b-e-n, Nebraska Rural Community Schools Association. You're short of 200 schools across the state, across about 89, 90 counties, so we're kind of the folks that are spread out all over the place. But we represent a lot of Nebraska. The whole discussion about continued training workforce development, helping people step forward, helping people grow, fantastic. I just think that-- and I've seen it in several bills. I don't know which bill it makes the most sense in. But I wanted to say something about this bill simply because it was an effort that included a number of parts. It wasn't a one size fits a whole bunch of things. It was a lot of possibilities, a lot of places, a lot of opportunities. And I think that's just so tremendous, especially in rural Nebraska. Rural Nebraska knows that it's stagnant on population at best. It knows that enrollments at best are holding its own. I mean, these aren't radical things that somebody surprising rural Nebraska about. The issue is promoting and continuing the vitality of rural Nebraska, regrowing it where the possibilities exist, making further attempts to do more with this huge expanse of the state of Nebraska and all the people within it. And I really appreciate all of these workforce development ideas and the possibilities that they can bring. I don't know if you remember this or not, but the number of times that I was told as a student or told somebody as a teacher you're being educated toward all of these jobs that you have no idea what they are and sooner or later you'll find out, because the idea was, new things created, new things created, new things created. Well the simple fact is school districts aren't going to keep up with all of that. The resources aren't there, the teachers aren't there, the facilities aren't there to keep up with it all. So these kinds of things for exiting seniors and for people in their early 20s, mid 20s, late 20s, changing careers, whatever they are, I think are absolutely fantastic. And I hope that we find a way to really work at this in a partnership fashion. Now the other piece I wanted to say something about is probably fairly predictable. Senator Harr included foundation aid. And for most rural school districts who watched equalization aid leave over the last 8, 10 years, it's been a discussion that has been on everybody's list, because the question is, so how do you put money back across the state when it's left and it's gone elsewhere. Well, yeah, you get into discussions about things like 20 percent income tax rebate, foundation aid, various kinds of things like this in order to make that commitment to replace those funds back out across the state relative to all students, not just some of the students, not just some of the school districts, but all of them. And I appreciate his effort to include helping to revitalize rural school districts with this concept of foundation aid. He's setting it outside the formula with a special funding source. I appreciate the creativity and the thought process to keep it on the agenda, keep it in front of people, and I appreciate the fact that there's a recognition that in rural Nebraska we want to participate too. We want to be part of it. Rural Nebraska started this whole thing. We don't want to walk away. We don't want to be left out. We want to be a part of it too. And I think this kind of a bill says you should be and here's a way to get to go about it. Appreciate it. Thank you.

SMITH: [01:00:30] Thank you, Mr. Habben. I see no questions from the committee. Thank you for your testimony.

JON HABBEN: [01:00:34] You bet.

SMITH: [01:00:37] Next proponent of LB1108. Welcome.

JEN GOETTEMOELLER: [01:00:44] Thank you. Good afternoon, Chairman Smith, members of the Revenue Committee. Thank you for allowing me to testify today. My name is Jen Gottemoeller. That's J-e-n G-e-o-t-t-e-m-o-e-l-l-e-r. You don't have to say that. I'm here representing First Five Nebraska, and I want to clarify and just start off by saying my comments are really intended to address only the school readiness tax credit portion of LB1108. I'm not able to speak to the other sections. A few years ago this committee considered and advanced, and the Legislature adopted the School Readiness Tax Credit Act. It really addressed barriers for the early childhood workforce across the state. And it also incentivized them to serve children at risk in poverty with a learning environment. That's really what it did originally. From the information that we have, 142 early childhood providers across the state, not just in urban areas, are receiving the tax credit for the first time; 2017 was the first time that this was really available for people. So I think that's great news. Regarding the changes that are in this section of the bill, we support really two things. One is removing the sunset that currently exists on the school readiness tax credit, and the other is changing increasing the rates that are paid, those tax credit rates. Both of those things we support really for one main reason and that is because the tax credits are specifically tied to the level of quality that closes the achievement gap. We know that the single most important factor in early childhood programs that are effective in closing that gap is the quality of the staff in those programs. And that's exactly what the school readiness tax credit addresses. We're not just hoping to incentivize what we think is going to work. We're actually rewarding the providers who provide the product that we need. I will bring up one thing that we would like to see changed. I just want to point out the First Five Nebraska strongly believes in serving children in natural and inclusive environments. That means where they already are. Right? So it's not moving them to a new program or suggesting that one environment is better than another. It doesn't matter if the child is in a home-based childcare setting with Mrs. Smith down the street or if they're in a local preschool program offered by the school district. Both of those environments can provide the care that supports a child's development, both those environments can provide the level of quality that reduces the achievement gap. I bring the issue up because those home-based childcare providers are currently unable to access one of the two tax credits that are available in the school readiness tax credit. And we'd like to see that remedied. The challenge arises with the definition of an employee. And typically home-based childcare providers do not set up their business with a structure that qualifies them as an employee and therefore they are not able to access the refundable portion of the tax credit. We don't have a specific solution yet. The language is not finalized, but I will tell you that it was the intent of that legislation to reach all early childhood members of the workforce including home-based childcare that is run out of the home. We're committed with-- to working with Senator Harr on that issue and also this committee to make sure that those home-based childcare providers are able to access that part of the tax credit. So with an amendment to address that issue, we would strongly support the school readiness tax credit portion of this bill and urge you to advance it. Thank you.

SMITH: [01:04:57] Thank you very much for your testimony. Questions from the committee? I see none. Thank you.

JEN GOETTEMOELLER: [01:05:02] Thank you.

SMITH: [01:05:04] Next proponent of LB1108. Seeing no additional proponents, we do have letters for the record, individuals or organizations have sent letters in for the record in support of LB1108: Greg Adams, Nebraska Community College Association; Dr. Samuel Meisels of Buffett Early Childhood Institute; Jay Lund of the Modern Street Car Advocates; Kristopher Valentin from Accelerate Nebraska; Sarah Ann Kotchian from Holland Children's Movement; Steve Nelson, Nebraska Farm Bureau Federation; Jenni Benson, NSEA; Julia Tse of Voices for Children in Nebraska; and Greg Youell from Metropolitan Area Planning Agency. We now move to opponents of LB1108. Opponents. Anyone wishing to testify in opposition? Seeing none, anyone wishing to testify in a neutral capacity on LB1108? Welcome.

SARAH MOYLAN: [01:06:24] Good afternoon, Chairman Smith, members of the Revenue Committee. My name is Sarah Moylan, that's S-a-r-a-h M-o-y-l-a-n; I'm the senior director of talent at the Greater Omaha Chamber here in a neutral capacity on LB1108. I am also authorized to provide testimony today on behalf of the Lincoln Chamber of Commerce. I'm here today in a neutral capacity due to the financing mechanism on LB1108. Our chambers are unable to support an increase in the sales tax at this time. However, we enthusiastically support Senator Harr's interest in a major investment in workforce development in our state. You are all acutely aware of the state's fiscal constraints and we are filling those constraints right now in existing programs at the Department of Economic Development which supports job training requests. I know you all have previously heard in this committee that the state's customized job training program, a program that we use quite a bit which also provides funding for InternNE has no remaining funds to allocate. Just yesterday, during testimony on LB947, you heard from a young woman who was a beneficiary of

InternNE. She works at Builder Trend. For a small expenditure of state dollars, a homegrown startup company trained a new intern. A young professional embarked on her first professional job and we all retain that talent in the state. She could have gone anywhere in the country and we kept her here. InternNE remains one of the most powerful programs among Nebraska employers with a great return on investment. It gets used all the time. In my position, I work with companies and employees on a day-to-day basis. Never before has the need for workforce, as well as developing that workforce been greater. We are in a battle for keeping every young Nebraskan here, while trying to attract new Nebraskans here at the same time to meet the growing needs of our state. I also commend Senator Harr for thinking beyond employer tax credits in this bill and recognizing that making an investment in an upgraded and comprehensive transportation system is, quite simply, both a draw and a necessity for our next generation of workers. Our chamber has just completed work on a new strategic plan for 2040 which focuses on people, place, and prosperity. Creation of a regional multi-modal transportation system is key-- is a key component of that strategy. We will need the state of Nebraska as a partner in that effort. Again, we thank Senator Harr for introducing LB1108 and taking such a strong leadership role in workforce development. We strongly support his efforts and stand by ready to assist the committee as you formulate a plan to further invest in talent in this state. Thank you.

SMITH: [01:09:17] Thank you, Ms. Moylan. Questions from the committee? I see none. Thank you for your testimony. Anyone else wishing to testify in a neutral capacity? Welcome, Ms. Rex.

LYNN REX: [01:09:30] Thank you. Senator Smith, members of the committee, my name is Lynn Rex, L-y-n-n R-e-x, representing the League of Nebraska Municipalities. We're here today in a neutral capacity mainly for clarification. First of all, but for the fact that we think there may be some impact on highway trust fund and highway allocation fund dollars in the back end when the half cent sales tax would go off. We would be here in strong support of it. First we want to commend Senator Harr for two things: one, just the innovative ideas in this proposal. And then secondly, and I think as importantly, providing a funding source for that. I think that's critically important and a very responsible way to do legislation. So we really appreciate that. If you look on chart 4, this is our concern. And Senator Harr indicated this was not his intent. But on Table 4, the fiscal note, it does show funds in years FY2022-23 and FY2023-24 and so forth, where it looks like there's going to be a loss to the highway allocation fund and highway cash fund. In fact, he says that is not what was intended by the fiscal note, but rather that those were funds would not be passing through because the half cent sales tax would be going off. So we think that also identifying the transportation innovation bank is such an-- infrastructure bank rather, is so important. We commend this committee for passage of LB916, all the hard work of your Chair to pass that bill, because I think that was-- that is a legacy piece for this Legislature for years to come. So with that, thanks to Senator Harr for introducing this innovative proposal; thanks for providing the funding source; and also for identifying the tremendous need for infrastructure. I realize all the education pieces are all very important, but from a municipal standpoint, the infrastructure piece is critically important to us. So with that I'd be happy to respond to any questions that you might have.

SMITH: [01:11:18] Thank you, Ms. Rex. Questions from the committee? I see none.

LYNN REX: [01:11:20] Thank you very much.

SMITH: [01:11:22] Thank you. Next do we have neutral testifier; anyone else a neutral position? Okay. We now invite Senator Harr back to close on LB1108.

HARR: [01:11:39] Thank you. I want to thank all the people who took time to testify today. I don't think in my eight years here I've had a bill that asked for a tax increase that didn't have anyone come in to testify against it. And I think that speaks to the fact that I think everyone understands the importance of investing in Nebraska and the importance of workforce development. Nobody wants to raise taxes, nobody, nobody. But at some point you have to decide where we want to invest and how do we want to grow this state. To what Ms. Rex mentioned on that fiscal note, I saw that and I went down to Mr. Gibbs first thing this morning. I said, so what did I do wrong? How is this pulling money out? And he said, it doesn't have a negatory effect, is what she said. It's because money goes into it and is continued-- well, it is going into that fund and then it's stops, so it shows up as a deficit. But if this bill doesn't-- this bill doesn't take one penny away from there that they wouldn't have otherwise. And if it does, and I don't think it does, I'll gladly fix that, because that's not the intent or the purpose of this bill, because those are good paying jobs that come from contractors. I was kind of hoping they would show up today, AGC, because we've stood with them when they had to raise their gas tax to provide for our roads. And I think they know the importance of roads. But that being said, this is an important bill. This is a bill that changes how we invest in Nebraska. And it goes from what can sometimes be a challenge of providing money to corporations, it still does, but what it does is it invests in that worker and it recognizes for the first time that the most important asset we have in this state is our people. And we-- it is, I mean that sounds like political rhetoric, but it's true, and we have to figure out a way. I want my kids to stay here, most of the time, and I don't want to see them leave. I want to make sure that there's a job here, that we have a large enough economy that no matter what they want to do, there's a job here for them. My nieces and nephews all leave the state. I'll go back to my twin brother. He has a niece graduated OPS; went to UNL, went there on a [01:14:12] Raikes [0.0] scholarship. She's not-- we invested a lot of money in her. And by the way, it's been a great investment because she's wicked smart. But she's a hard worker and she's leaving the state. She's taken a job with Apple. So what can we do to make sure that those people who want to stay here, there's a job for them. And I don't care if that person is a [01:14:39] Raikes [0.1] grad, the top of the scale, or whether they're somebody just coming out of prison. What are we going to do to make sure that that homeless person, that prisoner goes from being a liability to an asset? Because at the end of day folks, this is what we're investing in, quite a mix of people. You look at our budget over the last 20 years. Again, not my idea, it was shown to me, by last 20 years the two largest increases in budget: HHS and prisons; two smallest increases-- K-12, postsecondary. The latter, investment of the people, invest of the state. The former-- reactionary; means we've probably failed somewhere; not always, but probably failed somewhere. The fact that it is the highest growing means we have to ask why. And what can we do to lower those costs of HHS, of Medicare, of our prisons? And that's getting a job. So that's what we're trying to do. We're trying to build up from the bottom up, build up our economy and decrease some of our costs over here, temporarily for four years. That means we're going to have to invest a little bit more money. But when the farm economy starts turning around, when the effects of this bill start taking to-- come into being, we're going to have extra money. And then we can afford to not only just eliminate that half cent sales tax, but hopefully give other types of tax breaks. And that's what I'm trying to do with this bill. With that I'd entertain any questions you may have.

SMITH: [01:16:18] Senator Groene, then Senator Friesen.

GROENE: [01:16:21] Sorry, I missed most of this. You mentioned like we spend what, 570 million in state aid to the university system, another 100 million to the community college, 4.4 billion totally use on K-12; now you throw in a billion or two from property taxes. Are you saying that's all failed? That they come out of our institutions unable to work?

HARR: [01:16:49] Nope, never said that.

GROENE: [01:16:51] Then why-- is there something wrong with the process that they come out of college and they are not employable or skilled to take a job?

HARR: [01:16:59] Didn't say that either.

GROENE: [01:17:01] Did your niece or your brother's niece, where she went, was there a workforce for Apple, has a workforce program, the state does, that's going to help her or what, is that why she moved out of the state?

HARR: [01:17:15] She moved to the state because there wasn't a job here.

GROENE: [01:17:20] Two percent unemployment. Facebook just came to town.

HARR: [01:17:24] Fair. So and why would you move to California with the high, high tax rate? Because you move where there is the type of job you want. There's a large enough economy, and where you have the greatest earning potential. I'm not going to tell you how much she's going to make, but I can tell you it's a lot more than she can make here. And now she's established what her baseline value is. So even if she doesn't stay in Cupertino, she's developed her baseline and she's going to make more money wherever she goes than if she takes a low paying job, as our current economy is here. And so we have to figure out how do we grow large enough so that we do have the job that she wants here. And maybe she works for a little bit less because a dollar here or a dollar there is worth three dollars here-- 3.80, right? I mean it's way more expensive to live there and they have a real housing problem. Their housing problem is because houses start at 1.2 million. Our problem is our houses start at 200,000 and no one can afford them because we aren't paying them enough. Right? So what are we doing to grow our GDP so that people can afford 200,000; 250,000 houses so that we can help get over this housing problem that we have in Nebraska.

GROENE: [01:18:36] So a major company that pays well is going to move to the state of Nebraska where we have low unemployment because we have a workforce-- a workforce program--

HARR: [01:18:46] Well--

GROE: [01:18:46] Training program.

HARR: [01:18:47] Here's what I'll tell you.

GROENE: [01:18:49] And they're going to pay 200,000 dollars?

HARR: [01:18:51] We didn't get into this situation overnight, we're not going to get out of it overnight. But what I can tell you is that we've had low unemployment for a long time, and yet what type of jobs do we have? And is there alignment between the type of jobs we have and the employers-- employees. No. I'll also tell you, you know, that we're 23rd in growth, we're in the middle, we're not growing the fastest, we're not shrinking. Right? But you look at who we're graduating out, ones who are going with their college degrees and who are we bringing in? It's a different skill set. They're hardworking. Right? And they're building for the next generation, and the next generation. And that's commendable and that's what we want. But we also want some of those high skilled jobs to stay here. We want those people who have those degrees to stay here and we want to incentivize the economy that makes room for them not at the cost of those who want to do the hard labor. We still have money for training for that in this. But the fact of the matter is, that we don't have a large enough economy and we're not doing anything to encourage those people to stay here. We have a company Toast...

GROENE: [01:20:10] So we--

HARR: [01:20:10] Let me finish this. We had a company Toast. Do you know how much money they got from the specialized job training? Who paid, I think it's like 70-- or 80 jobs that paid

$70,000. Zero. Building and site fund? Zero. Now we got a chicken plant in Fremont. You know how much money they got? A heck of a lot more-- millions. Right? And so sometimes I question what our priorities are as a state. What do we want to be as a state. And I want to be both. And this allows for, hey, we can have the Costcos, which is a good job, no ifs, ands, or buts about it. But we also want money for the high-end jobs, and we want to make sure that we're retaining our best and brightest. We want to change the statement of Theodore Sorensen made, I don't know, 50 years ago, that Nebraska is a great place to be from. I want to make it a great place to go to.

GROENE: [01:21:03] So Toast didn't get any Advantage Act.

HARR: [01:21:05] I don't know. I don't know.

GROENE: [01:21:09] And Costco didn't get any job training money did they?

HARR: [01:21:13] Yes, they did.

GROENE: [01:21:14] Thought we only had like a million and a half dollars.

HARR: [01:21:18] No, I believe they got four million dollars, but I could be wrong. But they, yes, they did receive money from that job specialized job training fund.

GROENE: [01:21:24] Anyway we'll just keep adding on to the education in the state, won't we.

HARR: [01:21:37] We're not adding on to education. We got to help our rural schools by provide funding for our rural schools, and I hear, well, we are just adding onto education. No, we're investing in our kids. That's what we're doing, that nothing stops. You know, it's kind of like when

President Trump cut the corporate tax rate. What happened? Some of that money went back to the workers, same thing here. When you give those schools some of that money is going to go back to property tax cuts. Is all of it? I don't know. That's going to be up to that local school board. But they're elected by the individuals of where they represent. And so they'll get some input on whether 100 percent of the new money should go to property tax cuts or whether some of it should go to something else. And if they don't like it, then they vote out that school board member. It's called democracy. And that's what we need. If we're going to have a strong democracy, we need an educated citizenry. This bill does that.

SMITH: [01:22:40] Senator Friesen.

FRIESEN: [01:22:42] Thank you Chairman Smith. All I really want to know is when do you think the farm economy is going to turn turnaround?

HARR: [01:22:49] What? Right. They usually run in seven year cycles. I mean it's a historical, it's not exactly seven years, but you know you look at the historical data it seems to indicate that there are seven year cycles. You've been here longer than I have, you're older than I am.

FRIESEN: [01:23:01] You know that we don't pay tax though.

HARR: [01:23:03] What’s that?

FRIESEN: [01:23:03] We don't pay tax. I'm sorry.

HARR: [01:23:08] You're being facetious and I know that. Why?

FRIESEN: [01:23:11] Thank you, Senator Harr.

SMITH: [01:23:13] Senator Schumacher.

SCHUMACHER: [01:23:15] Thank you, Chairman Smith. And thank you, Senator Harr, for bringing us your, what do they call it, magnum opus.

HARR: [01:23:21] Yes.

SCHUMACHER: [01:23:22] Your big final effort. You said something early on that I keep going over in my mind that, was it forty-some percent of the kids graduating from the University skedaddle...

HARR: [01:23:35] Forty-two percent is what I saw.

SCHUMACHER: [01:23:38] Forty-two percent. So I'm trying to reconcile that figure with some of the other things that the testimony said, that 42 percent they must have made it to kindergarten okay. They probably might have come from parents well enough to do or ones that took care of their preschool needs, so they got passed that hurdle. They got past the third grade, and they obviously, unless universities take them, people can't leave, they must have learned to be read along the way. They must have graduated from high school. They must have been at least diligent enough to know they had to show up for some classes in order to get through the university. They get this degree, so I would think, unless the university is just flopping, they must be trained at that point. And they must be a develop workforce at that point. And yet for 42 percent of them, our economy failed. They didn't choose us. We failed in the competition. And maybe that was because, I would guess it almost has to be because of the factors of geography, climate, and culture. That's rather than this nebulous term workforce development seems equally important to this process. Why did that developed workforce not choose us? And if we can develop the workforce, we can develop the drywallers, we can develop the techs, we can the computer technicians, all this stuff. And unless our economy clicks on the other side of the equation and has a high paying job commensurate with their education to take them on, in an economy that just isn't looking for the cheapest labor because they were promised the cheapest labor if they come here under our incentive programs, unless we address that side of the equation which is a completely different side of it, we don't we don't squirrel money.

HARR: [01:25:56] And that's what the jobs of tomorrow aspect of this addresses is how do we have partnerships so that we can be, instead of reacting to the job market, we can be creating and proactive in that job market. And it's investing with a great amount of wealth and knowledge that we have locked in our universities and it provides a way out for that. Now people leave the state for different reasons. And some if it we can address legislatively. You know, I know some people leave the state because of who they love. We can address that and provide protection for that. At this point we decide not to. Some people leave the state because of job-- higher job potential. Right. Look no further than our first family. He has siblings. He chose to stay here because he had the most job potential because of the makeup of this state to get elected. His siblings left the state. Why? They left to higher tax states. And then they took the family fortune and invested it in a state that has still higher taxes than we have. Why is that? Because it's where you have the potential to make money. That's what determines where you live. Now dad, dad retired and where did dad move? Wyoming. Why? Because they have no income tax. And when you have, you know, when you have set the bar and how much you're going to make and you living off an nest egg, that's when you move to controlling your costs. But when you're growing and when you look to where the opportunity is. What the jobs of tomorrow help do is create those opportunities. That's what we're trying to do with that is create opportunity. And, you know, look at some of our secondary people, teachers. I'll pick on them for a second. A lot of them leave the state because they get paid more to go somewhere else. Some will come back when they realize the high cost of housing. Some get married and stay. Some of them stay there any where they are and teach somewhere else. But the fact of the matter is we're losing 42 percent and that's unacceptable. That is a drift that we can't afford. Long term what I'd like to see are the kids from other places move here because we have a growing economy and because we are an exciting place to be. And they may not have a job when they come, but they want to be part of something bigger than themselves. That's lacking right now. And I hate dogging our own economy. We have-- this is a great place to live. I chose to live here. I chose to raise my kids here. And I've been fortunate enough to be able to afford to do that. Not everyone has that ability. Again, my own-- and my family, my brother left the state because he could make more money somewhere else and he's done well doing that. And I understand that, but what I'd like to do is have a big enough economy that anyone who wants to live here can and can find a job. And you have to have primary jobs and you have to have secondary jobs. Primary jobs are the job creators and we have to figure out a way to get more of those, bar none if we are going to grow as a state. If not we're going to be fighting against the Des Moines of the world and we're going to have a tough time. I want to be competing against the Chicagos, the Denvers, and the Minneapolis. I want to grow. And when I say us, I mean an urban area and a rural area. And when I say urban I don't mean Omaha, I mean DSL--Douglas, Sarpy, Lancaster. We are one corridor and we will grow together or we'll sink together and we have to start thinking as one and start acting as one. Omaha and Lincoln can't compete against each other. We have to work together, because we aren't just competing against each other, and we're not just competing against Indiana, we're competing against India. We're living in a global economy. And so we have to find ways to work better together as a state and we can fight urban rural all we want, and the world is just going to pass us by. What this bill does is it says--what can we do to help everyone. High tide raises all ships. That's what we're trying to do. I know you lost-- some of your kids didn't stick around here. Wouldn't it be great they had jobs that paid as well here as other places so they could afford to live here.

FRIESEN: [01:30:34] I think it-- and I bet if you looked across the members of the Legislature, the number of kids who have left the state are considerable.

HARR: [01:30:44] Yes.

SCHUMACHER: [01:30:45] And I think-- as I analyze it, they left because of geography, climate, and culture and that's really hard things to change.

HARR: [01:30:54] But why do people move to Minneapolis? What does Minneapolis have that we don't, other than a super bowl and cold weather.

SCHUMACHER: [01:31:03] Land of Lakes Butter.

HARR: [01:31:03] Land of Lakes Butter.

SCHUMACHER: [01:31:07] I want to thank you for bringing this. What's a real shame is you're on watching the sunset and I'm watching the sun set and Senator Smith is watching the sun set, is that it's only now that we begin to kind of conceptualize where our problems are and what creatively we can do to solve them and now we've got to wait for the door to hit us on the behind.

HARR: [01:31:36] All I can say is term limits-- constitutional term limits didn't affect me, my wife did.

SCHUMACHER: [01:31:40] Well-- actually they saved-- term limits saved a lot of arguments.

HARR: [01:31:47] Exactly.

SMITH: [01:31:48] Senator Groene.

GROENE: [01:31:50] I looked it up on the Internet. Thirty percent of the students at the University of Nebraska, nonresidents, when I lived in Colorado in the eastern plains, half the kids who go to Nebraska because the tuition was less then University of Colorado, Colorado State. They all came back home to Colorado because the taxes were lower in Colorado. Correlation? We lowered our-- we keep our tuition very low in Nebraska because of what it's supposed to fix what you were talking about, Senator Harr, that we will bring these kids in from other states; 30 percent of our enrollment, and then they would stay here because they'd fall in love with Nebraska football and stay here. We're not only losing according to you that 30 percent, but we're losing 12 of the in-state ones that we gave this nice cheap tuition to. So tuition-- cheap tuition didn't work apparently. So you think now after they graduate if we give them a company-- we're not giving it to the kid, we're giving it to the company, a tax credit in a state that has very low unemployment. So I would think the company themselves would be paying more to attract that individual. I'm just confused here how these-- all these things intertwined have not done what they told the taxpayers in Nebraska they would do; these very highly taxed payers in Nebraska who give this low tuition and now will give these tax credits. Why isn't it working?

HARR: [01:33:21] First of all, I want to thank you for admitting you're confused. And your site that you have, is that UNL-- university at Lincoln, university at Omaha, university at Kearney.

GROENE: [01:33:36] UNL.

HARR: [01:33:37] Right. And so that's our flagship, that's our land grant university. I doubt that that 30 percent of the kids going to UNK are from outside the state. I doubt 30 percent of the kids going to UNO are outside the state. So we're comparing apples to oranges, because I'm talking about university and then you're talking about one portion of the university as far as input. So and so that would probably account for some of that, not all of it. But your underlying point is valid. Why are we losing these kids? And you know why would you go to Colorado? Colorado also pays their kids more. There was a year in there where Chadron didn't keep one of their teaching kids because they all went to Wyoming, North Dakota, South Dakota, because there is a boom going on there and they pay them more. And probably Colorado pays more. So maybe we need to pay our kids-- we need that-- and it goes back to we need potential. Did they leave because of lower taxes or because they were going to make more money? I don't know. I'd love to talk to them and find out. We don't have any studies that tell us that. Or are they going because Denver is a larger economy and has jobs available to them that we don't have. I don't know. So maybe I'm just as confused as you are, but what I can tell you is they're leaving and we got to do something to incentivize them to stay here. And if that means going to an internship and saying I never thought I'd stay in Nebraska. I came from Colorado and I couldn't get out of this god forsaken town quick enough. And then I got a job. I found out I loved that job. And it was a job I couldn't get anywhere else and I stayed here. And they stay here and they have kids here and their kids have kids and, you know, that's what we're looking for is to give people a chance to look at jobs in Nebraska, to have their, to have, this could be the new McDonald's, the best first job is Nebraska because of our internship program. Now hopefully pay better than McDonald's, but we want to give people a chance to try out and test drive our state a little bit, especially those 30 percent that go to UNL, from who are from outside the state. But we've got to have an economy we've got to have jobs; jobs, jobs, jobs. And so what are we doing? We can sit back and complain and say I don't think it's working, or we can say, let's try something. Senator Brasch isn't here. Senator Brasch says don't be afraid to move slowly. Be afraid not to move.

GROENE: [01:36:07] Senator Harr, you make a good point. It used to be the term brain drain, but we find out it's across the board. McDonald's can't find employees; the schools can't find employees; the high tech can't find employees. McDonald's in Denver can find employees. What's the difference? It's not skill. It's not a work program. Why don't they want to live here? I think it's high taxes.

HARR: [01:36:30] And I might disagree with you on that. I think there's-- I don't-- I have yet to see a low wage earner say I am leaving the state because of taxes.

GROENE: [01:36:41] The boss is paying high taxes and they get paid less.

HARR: [01:36:44] What's that?

GROENE: [01:36:44] Their boss is paying high taxes and they're getting paid less.

HARR: [01:36:48] Well, we might just disagree.

GROENE: [01:36:50] You mentioned the Trump tax. The reason those people got employees because Trump lowered-- employees got high bonuses and raises is because Trump lowered the taxes. Amen.

HARR: [01:37:07] I'm not going to take the bait. I'm here to talk about LB1108.

SMITH: [01:37:14] Senator Harr, that's the third miracle of the day. We had an unbracket motion. We had a 13-page fiscal note with no opposition, and you didn't take the bait.

HARR: [01:37:24] It's a red letter day.

SMITH: [01:37:25] Senator Schumacher.

SCHUMACHER: [01:37:27] Just one observation--we sit here, looks out in the audience that's here, we try speculating why are we don't keep the kids here; why we can't attract the high caliber trained people in an equilibrium with other parts of the United States, but we've never asked-- I-- if I were to be here longer, I would push very hard for us to contact and to spend some time interviewing the two kids per class per Ivy League school to ask them-- they come from Nebraska, have experience with Nebraska and that's about what the number is, 2 per class, so it would be about 64 of them, what would it take to bring you back here and why if you would have initially answered a questionnaire--no way in hell am I going back there. We need to know that. Because I don't think we have the capacity to guess why. It may be, oh my goodness, they have a 6.95 percent tax and I would sooner pay the 12 percent tax here in New York. Maybe that's the reason. You know maybe it's just because, gosh, you people are just really not with it on things like what the Omaha Chamber wanted to pass regarding gender discrimination. We need to know the why. Maybe it's just, you know, I can get on a plane in New York and get to Miami for ninety-nine dollars without having to take a hardest chair in the air from Omaha to Minneapolis to get any place I want to go. We need to know the reasons why. And almost of that, they are not reasons that we think.

HARR: [01:39:22] So at Christmas I sat around with my nieces and nephews and asked them. And their reasons were as different as you said. And there is no one, but it's all of those. I had a niece who worked in Omaha. She moved to Kansas City because she got more money. I have a nephew who works in Baltimore because there's more money. New York--more money, higher taxes. And by the way, neither one of those had jobs that you could have in Nebraska. There is no one right answer. But the bigger you get that pie, the better you have a chance of addressing a lot of those issues. If it's flights, the more people you have, guess what, the more flights you're going to have out of there. If it's I can't find someone in my community here. The more people you have, the more chance you're going to find people of your community there. If it's I can't find a job; again, more likely. We have to continue to grow as a state. We have to continue to grow as a country, and we have to continue to fund our education and we cannot fund it on the backs of our farmers. And so we have to figure out a way as farm-- think about it, our whole economy, everything gets bigger, right? bigger, faster, better, cheaper. And farming, I think I heard someone once tell me, it used to be four families to a section. Now it's four sections to a family and it's only getting bigger. So what's that tell you? That tells you we need less farmers. Okay? Because unlike other parts of the economy or you can't create more land, and so it's just there's going to be fewer farmers. It's a reality, it's sad. Dave Karnes said it, I don't know, 30 years ago, and got in a lot of trouble for saying that. But it it's like any other part of our economy. And I apologize for saying that, and it's tough to say that, but it's true. And as we have fewer farmers, the hope is that we continue to make them successful and we don't destroy the property taxes. But as we have fewer farmers, they're the primary money maker in a lot of our economy. And as a result, as there are fewer of those, there are fewer needs for butcher, baker, candlestick makers, the secondary jobs. So what are we doing to incentivize value added ag? Go out to Sonoma County, California. You know what that is? It's an agricultural county, except they have this value added product called wine. Right? And they're doing very well. They're doing better than we're doing here. They'll complain. I mean that's just the nature of any business. It can always do better; pleased, but never satisfied. We have to figure out a way--how do we take our product: corn, wheat, soybeans, whatever it is, and do value-added ag? What are we doing? Let's work with our universities to do that. Let's do the jobs of tomorrow, invest and figure out how can we-- Columbus is a great example. We figured out how to take corn and create ethanol. And as a result, corn has a premium. If you grow corn around Columbus, there's a premium. And you've avoided, to a certain degree, the world market. Let's figure out other ways that we can create competitive advantages, because that's how we're going to succeed and that's how we're going to get people to move here is because they're going to try out for that value-added, whatever that is, whether that's ag or something else. And maybe it's pie in the sky. I don't know. But the fact of the matter is whatever we're doing now we got called the worst economy. We're doing something wrong and we got to change what we're doing. We have-- Senator Groene says we have almost no unemployment, and yet we're running deficits. When you have zero unemployment, which is usually a measure of success, you should have extra money so you can afford 1.5 trillion dollars in tax cuts. We can't afford anything right now. We're running on empty. And the incentive programs we do have now, DED doesn't have any money for them. So what are we going to do to grow this state? How are we going to be a better state? I don't know. This is-- looks at the array. It doesn't say it's this; it doesn't say it's that; it says it's bigger than that. So I don't know if that answers your question, but at least it's trying to do something.

SCHUMACHER: [01:44:00] Thank you for the discussion, Senator.

SMITH: [01:44:02] Senator Friesen.

FRIESEN: [01:44:03] I'll defer my opportunity because I don't know if I have time for an answer.

SMITH: [01:44:06] All right.

HARR: [01:44:10] And I didn't mean to offend you, but we are getting larger farmers and we're not getting any more land.

FRIESEN: [01:44:14] I am terribly offended.

SMITH: [01:44:15] I know and I apologize.

GROENE: [01:44:18] It's all the free food around here.

SMITH: [01:44:20] All right, very good. Thank you, Senator Harr, for your closing on LB1108. Nice job. Thank you. And that closes the hearing on LB1108. And we'll allow the room to transition for a moment and we're going to open our LB745 introduced by Senator Watermeier. No, no, I was just letting folks kind of move around out there so that you don't get distracted.

WATERMEIER: [01:44:46] This was so much fun in here with you guys.

SMITH: [01:44:50] Oh.

WATERMEIER: [01:44:52] Oh what?

SMITH: [01:44:53] You haven't seen anything, Senator Watermeier. Welcome, Senator Watermeier. Senator Watermeier is here to open on LB745 dealing with the requiring notice relating to certain refunds of local sales and use taxes. Welcome.

WATERMEIER: [01:45:09] Thank you, Chairman Smith, and members of the Revenue Committee. I am Senator Dan Watermeier, spelled W-a-t-e-r-m-e-i-e-r; representing District 1 in the southeast corner of the stat and here to introduce LB745. LB745 deals with a refund of local option sales taxes in situations where sales or use taxes have been overpaid and must be refunded due to an error in collection or computation. If the amount of the local option sales tax refund is greater than 5,000 dollars, the tax commissioner is to notify the affected city or county of such a claim within 20 days after receiving the claim. If the claim is allowed, the tax commissioner shall give the city or county the option of having the refund deducted from its tax proceeds in one lump sum or in 12 monthly payments. I'm not disputing the fact that sales tax refund must be made when sales taxes over paid and collected in error, however the loss of revenue already received can be a hardship on some of our communities. LB745 would give these local communities the chance to plan and make budget adjustments for such refunds. The requirement in the bill would only apply if the amount of the refund is at least 5,000 dollars. Lesser amounts would require more work for the department but would not cause a considerable hardship on our communities. When a significant refund is required, a city has limited options in which to balance its budget. Furthermore, they may have a number of commitments for this revenue. Giving municipalities the option of monthly installments will help the budget adjustments in these situation. This issue was brought to my attention by Nebraska City. I won't go into the specific detail as a representative from Nebraska City will be here. However, they were hit with a 120,000 dollar refund of their scheduled 170,000 dollars in sales tax revenue, receiving no advance notice as it was not currently required. If LB745 would have been in place, they would have received prior notice of the refund amount and would have been able to repay it in monthly instalments throughout the year. Both the notice and the option for monthly payments would be made-- would help make planning budgets adjustments a much more workable. In addition to the city of Nebraska City, I also work with the League of Nebraska Municipalities on this legislation and I would like to thank both of them for they helped me get through this issue. So with that I would end my opening and offer any questions if you have some. Thank you.

SMITH: [01:47:28] Thank you, Senator Watermeier, for your opening on LB745. Questions from the committee? Senator Groene.

GROENE: [01:47:34] Is this is caused by the Advantage Act?

WATERMEIER: [01:47:38] No. This is strictly like if something was contract was in the city or county and they may have had a sales tax exemption on something and didn't realize it and then apply for this exemption later on and then may have received it. So it was a pretty sizable amount what happened. I'm just guessing what happened. I can't give you the details on that. I don't know them, so.

GROENE: [01:47:55] Thank you.

SMITH: [01:47:56] I see no remaining questions. Thank you for your opening. Are you going to remain?

WATERMEIER: [01:48:02] Yeah, I'll stick around.

SMITH: [01:48:02] Okay. All right.

WATERMEIER: [01:48:04] More fun here than Appropriations.

SMITH: [01:48:07] All right. We welcome up proponents of LB745, those wishing to testify in support. Welcome.

GRAYSON PATH: [01:48:23] Senator Smith, senators of the Revenue Committee. My name is Grayson Path, G-r-a-y-s-o-n P-a-t-h. I'm the city administrator of Nebraska City, Nebraska. I'd like to thank you for this chance to come and speak to today. I'd like to thank Senator Watermeier for moving this forward for us. In March of 2017, the city of Nebraska City received its monthly sales and use tax receipt from Department of Revenue, and it was considerably less than average. While sales and use tax they fluctuate month to month and we're used to that, the information we found showed that we took a hit of 120,494 dollars and 51 cents in one month; far greater fluctuation than the one that we usually see. When we reached out to the Department of Revenue, we began to learn more about a state Statute 77-2708, Title 316, Chapter 1, Regulation 110 as well about how those who overpay in two dollar amounts and within three years notified the tax commission can receive refund, so we learned more about that. In our instance, an unknown number of entities, again, by statute and confidentiality we do not know how many, if it's one or numerous projects, and that's not to be argued, we understand that. A number of entities had a refund of this 120,000 dollar amount, and again in one month. N ow since January 2006, excluding about 19 months in which we have had over 5,000 dollars refunded, the average we've had refunded per month is about 700 dollars or less per month usually on average for our city. So to state it plainly, the city of Nebraska City, we were not expecting this large of a hit in our balanced budget. It was very hard to adjust for that without any kind of notification, no kind of fore warning, and no option to increment this over time. Now under the Nebraska Advantage Act, as Senator Groene mentioned, communities are given notification ahead of time, as well as an opportunity to do an installment plan as well. This LB745 would do very similar language for the non-incentive based refunds. Large refunds of sales tax, to which I point are no fault of the city itself, can have detrimental impacts to our municipal budgets. We do not have any issue whatsoever with the refunds; we understand that. We fully agree with people getting the refunds when they overpay, that's not an issue at all. We simply asked for the opportunity to adjust our budgets accordingly to increment this in time so we don't have those major hits. At one point it would allow us to examine our budgets, adjust over time and soften the impact to the vital services we offer to our citizens. Thank you for your time today. And I would welcome any questions you have.

SMITH: [01:51:18] Thank you, Mr. Path, for your testimony. Senator Friesen.

FRIESEN: [01:51:21] Thank you, Chairman Smith. When you look at these numbers, I mean is there any way of tracking down why this is-- about why it happened. I mean you said it was taxes were rebated because someone didn't think they should pay them, but that seemed like you get some of that all the time and why would it spike? Is there any kind of fraud happening?

GRAYSON PATH: [01:51:43] No. Unfortunately under confidentiality laws at the city, we're not allowed to know who, why, when, all we know happened within the last three years. We don't know what project it could have been. We obviously locally we can we can guess and-- but again those are strictly guesses. Only the Department of Revenue knows who and why. And so working with them-- and we trust that they are doing their jobs right. And so they're the ones that would determine this. But again, as we average 700 dollars or so for the last 11 years per month this was an unusual spike. It's not unheard of. We've had 19 months of the last 139 months of 5,000 or more. Three of them being 70,000 or more. So we've been taking hits in the past. And again, we don't always know those in Nebraska Advantage Act or not. This was not, otherwise we would have had the option to increment it. So it was strictly a refund; someone who should not have paid sales tax did. And if someone or someone’s did and they had the option rightfully to get that back. And so--

FRIESEN: [01:52:47] I would hope they're doing the audit to make sure that it's a legitimate refund. So.

GRAYSON PATH: [01:52:51] I would agree. Yes, I would agree. And again unfortunately we don't have a say in that.

FRIESEN: [01:52:55] Would be nice if there was some communication back and forth.

GRAYSON PATH: [01:52:58] I would agree.

FRIESEN: [01:52:59] Thank you.

SMITH: [01:53:01] Thank you, Mr. Path. Further questions? I see none. Thank you for your testimony.

GRAYSON PATH: [01:53:05] Thank you.

SMITH: [01:53:05] Next proponent of LB745. Welcome back, Ms. Rex.

LYNN REX: [01:53:13] Thank you. Senator Smith, members of the committee, my name is Lynn Rex, L-y-n-n R-e-x, representing the League of Nebraska Municipalities. This is a case as outlined to you of a situation where a municipality will be having to face a refund issue. And even though they don't get the money, they simply-- they obviously don't give the refund themselves. They just don't get the money from the Nebraska Department of Revenue. We have no doubt the Nebraska Department of Revenue is doing its job. But again, these are not 775 or Nebraska Advantage Act type refunds. Otherwise the city would have the option of at least having a budget year in which they could plan. And as you can imagine, even with the state's budget itself, that when you're looking at a kind of situation where you're having 120,000 in a budget the size of Nebraska City, you're looking at a something-- if that's coming in October, you have a full year because a fiscal year starts October 1, but if that's coming in March or April or May it has just a real serious impact in terms of how they're going to budget, what else they're going to have to cut in order to make the rest of the year work for them. So we would really appreciate the opportunity to have this Legislature advance this bill. We think that it should be pretty noncontroversial. I would indicate that Grayson Path has done a lot of work on this effort, as has Senator Watermeier and his staff, and we thank them so much for their efforts. He indicated that from 2006 on, less than 4 percent of all refunds were greater than 5,000. So this is a situation where you're not looking at high frequency, but you're looking at high severity when it does happen. So we would appreciate the opportunity for municipalities to be able to pay it in installments or in one lump sum; give them the option of doing that, another alternative. And we'd be happy to work with committee counsel and committee on this. Would be the same thing that we do with the Nebraska Advantage Act and 775, which is to say that they at least get a budget cycle. So in other words, so they can plan for that. And for those businesses that are here, we think that some have misunderstood the bill from some indications that we have. Some of the businesses thought that they wouldn't get-- that they wouldn't get the refunds, that they would have to wait over a period of time. That's not how it works. The state of Nebraska gives them the refund of once they verify that that refund is due. So this is just simply a reimbursement back to the state of Nebraska. And the fiscal note, I'm not saying is misleading, it's not misleading, it's just that the state of Nebraska will get paid back the money. And you'll note that I think it's a million something in year one and then it drops down to like 80,000. So again, we would really appreciate the courtesy of allowing municipalities the ability to budget, especially in these tight budget times. And they are in that kind of a situation. With that I'd be happy to answer any questions that you might have. I will tell you that this went before our legislative committees of all first class cities, as well as a second class cities and villages in the state. And it was unanimous. This is not just unique to Nebraska City, but in light of your time, we only had one city come today. I'm happy to answer any questions that you might have.

SMITH: [01:56:11] Thank you, Ms. Rex. Questions from the committee? Senator Groene.

GROENE: [01:56:16] Thank you, Chairman. If they eventually get the money, why is there a negative fiscal note?

LYNN REX: [01:56:22] Well the state--

GROENE: [01:56:23] It's just delayed.

LYNN REX: [01:56:25] The state of Nebraska will be paid back. In other words the state of Nebraska will be given-- will be taking the funds out in increments. In other words, the way this bill would work is that the state of Nebraska would give the business-- they get their refund immediately, and then the state of Nebraska will be taking out the amounts that they-- for example, they will be giving back to Nebraska City in 12 installments. So let's say it's 120,000 refund, they will be taking that out--

GROENE: [01:56:53] I understand that, but eventually it all comes back through us.

LYNN REX: [01:56:54] It does, it absolutely does, yes. But for whatever reason, I think that's the way that the Fiscal Office operates that they-- not being critical, I just think that they indicate that that in year one would have a higher amount, but you'd have to ask them, I guess, in terms of how they calculate that. All I can say is, we don't see it as any revenue loss for the state of Nebraska. You're going to get it. The cities are going to pay for it. It's just a function of when the state of Nebraska gets reimbursed. And we'd like to have the ability as municipalities in the state to at least have the option of paying it back in 12 installments.

SMITH: [01:57:28] This is a timing issue.

LYNN REX: [01:57:30] Thank you, yeah. That's so much more...I could have cut my testimony much shorter had I just said this is a timing issue. Thank you.

SMITH: [01:57:38] You know, this is a-- I think this has been an ongoing issue for a long time. I remember cities that I represent having this issue. I'm kind of surprised that we did not get more letters in support of this from your members, because I do know this to be an issue for them. So I'm a bit surprised by that. But I think it's-- I appreciate Senator Watermeier bringing this and attempting to address this.

LYNN REX: [01:58:08] And, Senator, we can ask our members to make sure that they send that information to you, because this is information that clearly-- when legislative committees discussed it, it was not unique to Nebraska City. And again, part of that, I think, has to do with the fact that it is, in risk management terms, it is high severity, but low frequency, when you have, basically, less than 4 percent of all the refunds from 2006 forward less than 5,000. It just that when it does hit and it's a big number, it does have an impact.

SMITH: [01:58:37] All right, very good. I see no further questions. Thank you.

LYNN REX: [01:58:40] Thank you very much.

SMITH: [01:58:43] Next proponent of LB745. Seeing no additional proponents, we move to opponents, those wishing to testify in opposition. Seeing none, anyone wishing to testify in a neutral capacity on LB745? With that we invite Senator Watermeier back to close.

WATERMEIER: [01:59:03] It's a timing issue.

SMITH: [01:59:06] And Senator Watermeier waives. And that concludes our hearing on LB745. We now invite Senator Baker to join us and to introduce LB907 dealing with provisions relating to a sales and use tax exemption for agricultural machinery and equipment. Welcome Senator Baker to Revenue Committee.

BAKER: [01:59:30] Thank you, Chairman Smith, members of the Revenue Committee. My name is Roy Baker, R-o-y B-a-k-e-r; I represent District 30. I'm introducing LB907 dealing with the existing statutory exemption of ag machinery equipment. Let me be clear, this bill is not an attempt to add additional tax exemption, rather it seeks to clarify an existing exemption; further defining what is equipment and what is regarded as part of a building by the Department of Revenue. The bill clarifies and establishes a better definition for ag machinery equipment used directly in, quote, cultivating or harvesting a crop, raising or caring for animal life, protecting the health and welfare of animal life, or collecting or processing agricultural product on a farm or ranch, end quote. That language comes directly from the Department of Revenue information guide in July 2012. This bill also states (inaudible) regardless of the degree of attachment of equipment. This language comes directly from Statute 77-105 which is included in the definition for tangible personal property. So we're talking about ag machinery equipment that is necessary for the raising and caring of animal life. Example given--for ventilation fans would provide fresh air and ventilation curtains to help regulate the temperature inside the facility. There are people behind me who will be providing further information. With that I close my opening.

SMITH: [02:01:25] Thank you, Senator Baker, for your opening on LB907. Questions from the committee? Senator Schumacher.

SCHUMACHER: [02:01:33] Thank you, Chairman Smith. Thank you, Senator Baker. Do you happen to know when we originally bought on to this exemption and what the fiscal note said this is what it's going to run, that was back in the days when we actually had some extra money to divvy out because of what was then grown or something? And so we said, okay fine, we can do some social programs, we'll create a couple of exemptions over here. And one of them was ag sales tax exemption. Did that original fiscal note that we said, yeah, we can afford this, did that include the--

is this a mistake that these aren't being included, or did that original fiscal note never contemplate that we'd have things like ventilation fans included in it?

BAKER: [02:02:25] I'm believing it's a mistake that things that should be considered be equipment or be classified as part of the building. So I take it your question is also to make your good statement part of the record, so thank you for that.

SCHUMACHER: [02:02:38] So basically the original fiscal note should have been a lot larger?

BAKER: [02:02:44] I don't know that, I don't know that.

SCHUMACHER: [02:02:46] Okay, thank you.

SMITH: [02:02:49] I see no remaining questions. Thank you, Senator Baker, for your opening. We now move to proponents of the bill, proponents of LB907. Welcome.

BARRIE LUERS: [02:03:07] Thank you, Chairman Smith and the Revenue Committee. I appreciate the opportunity. My name is Barrie Luers, B-a-r-r-i-e L-u-e-r-s. I work for a company by the name of Midwest livestock Systems; I'm the general manager of that business, and have been with the company 23 years. Our company is 47 years old based in Beatrice, Nebraska. We are operating in approximately 15 states producing livestock facilities. In those 15 states, and based in Nebraska, of course, and a good bit of our businesses is in this state. We very much support LB907. The intent, as Senator Baker indicated, is to provide additional clarity to the Department of Revenue regarding what qualifies as a tax exemption for agricultural equipment, specifically related to livestock, which we all know is a very big part of the economy in Nebraska. The language raising and caring for animal life is already in place, but we believe there is a need to strengthen that language to protect the health and welfare of animal life, and also to connect the issue of attachment to the building or attachment to real property. The correction, if you will, or perhaps oversight of-- the original language was very broad. And I believe the intent of that was being broad so that it would encompass all of those aspects of production agriculture. Unfortunately, when-- when people think of agriculture, in many cases, they think of tractors and combines and really visible things that we all see, and the type of equipment that goes into livestock facilities oftentimes can be not thought about. The ag industry has followed the guidelines of it is for raising and caring for livestock then we don't charge tax to the to the producer and subject to exemption. The Department of Revenue is now requiring our company and others to collect tax on equipment they classify as fixtures or improvements to the property and believe that those are taxable. And of course, that's a cost that will be passed on to the livestock producers. Interpretation is always a big part of the law. There's no question about that, and we believe the interpretation of the Department of Revenue is mistaken in this situation. I think they are tying the knowledge that they have about commercial properties and improvements in correlating that with livestock facilities. Therefore, calling things fixtures that are taxable in most cases, but when it has to do with livestock, they're not really a fixture, they are really something specifically related to keeping the animals alive and producing. If you would take the handout that we passed out, and I'll just quickly touch on the items that are on there, just to give you a feel for what these devices are and why they are so critical to the production of livestock. Exhaust fans that you see, if you've ever been in the country, you've see these buildings that have banks of fans on them, they bring the fresh oxygen into the building. It's what keeps animals alive. These buildings have changed dramatically in the last 20 years. Most livestock facilities now are power ventilated, or in other words, they require fans to bring air into the buildings and they are they are not relying just on Mother Nature to do that. The ceiling inlets that are next to that, they're a part of that same system that brings the fresh air in and directs it toward where the animals are. The ventilation curtain that you see there, again, is not a bearing wall, it is a covering, if you will, that is used again to moderate the temperature inside the building. Evaporative cooling is for keeping animals comfortable and hungry, basically, when they are in those production buildings. Emergency generators, again, are viewed by the Department of Revenue as an accessory, however with the facilities being power ventilated, you have to have backup power. If the electricity goes out, you keep those animals alive and not suffocated you have to have a generator. Mortality composters, they've taken a position saying, well that's not an agricultural equipment. Well dealing with mortalities is a major part of raising livestock today. We can't bury them, we either have to burn them or we have to have a truck come by to pick them up that's been at other farms, that is a rendering truck and carries disease with it. So biosecurity is a very big deal. And so, anyway, again, I appreciate the opportunity to go through these items. We believe that additional clarity for the Department of Revenue will be helpful in clarifying some of these issues. Thank you.

SMITH: [02:08:41] Thank you, Mr. Luers, for your testimony. Questions from the committee? Senator Schumacher.

SCHUMACHER: [02:08:48] Thank you, Chairman Smith; and thank you for your testimony. And thank you for this little handout because it does raise a question. If you were to have whited out all the text and showed me these picture and asked me what is this-- what are these pictures of? I'd have said, I don't know, some kind of factory I suppose. And that leads me to the question of how are comparable things in the commercial world, the non-ag world, treated under the tax system? Do they get credit for it? Do they get the same benefit that is being sought by this bill?

BARRIE LUERS: [02:09:30] Senator, I'm not certain of the answer to that question related to manufacturing or industry. Again, not familiar with the details of that side of the equation.

SCHUMACHER: [02:09:42] Okay, thank you. Maybe I'll catch somebody else who testifies on that.

SMITH: [02:09:45] Senator Groene.

GROENE: [02:09:47] Thank you, Chairman. So you would consider this machinery or equipment right?

BARRIE LUERS: [02:09:53] Correct.

GROENE: [02:09:55] When the farmer buys it, he puts it on his depreciation schedule doesn't he.

BARRIE LUERS: [02:10:02] Yes.

GROENE: [02:10:03] So I don't understand why this isn't already covered when it says depreciable agricultural machinery and equipment purchased, leased, or rented on or after January. If it's a depreciable item, how can they charge sales tax on it?

BARRIE LUERS: [02:10:20] That is our question. This is the conflict with the Department of Revenue that has taken the position that these should be-- these are, in their world, building materials that should be taxable.

GROENE: [02:10:38] And you will replace a composter probably a couple times in a lifetime of the building, right, so it's a piece of equipment that wears out.

BARRIE LUERS: [02:10:48] Something that would wear out over time. They could last 20 years.

GROENE: [02:10:53] Thank you.

SMITH: [02:10:57] Questions from the committee? I see none. Thank you for your testimony.

BARRIE LUERS: [02:11:02] Thank you.

SMITH: [02:11:02] Next proponent of LB907. Welcome.

ROD JOHNSON: [02:11:13] Thank you, Senator Smith, and members of the committee. My name is Rod Johnson, R-o-d J-o-h-n-s-o-n. I'm executive director of the Nebraska State Dairy Association, and I'm also here representing the We Support Ag group. We Support Ag is a coalition of animal agriculture groups: the beef, pork, poultry, and dairy industries, along with the Farm Bureau working to support the livestock industry and the humane and the care that our livestock producers give to their animals. We passed out some literate here, some information that has been put together, and I'm not going to read through that. I encourage you to take a look at it. There's a couple of things that, to follow up on what Mr. Luers said earlier, to follow up on some of that, there's a couple of things in there that I think I would like to point out. Number one, on a grain bin-- a fan that is put onto a grain bin is used to pull air through the grain bin to make sure that the grain maintains its quality within the bin. That's the same difference as what's happening with the air that is pulled through a livestock facility. So it's the same principle, but from everything we've been told, the grain bin fan is considered nontaxable, but they're trying to assume that the fan pulling the air through the livestock building is taxable. So it's-- and that the purpose of that fan is to preserve the quality of the animal or the grain that the fan is being worked on. So I think that's just one of those things that is not consistent within the industry. A lot of people ask, well why are your animals in buildings, is that just an extravagant thing or why are you putting your animals in buildings? The largest-- the newest dairy that has been built in Nebraska started milking about 300 cows last summer in a confinement building. Earlier this month, when it was 17 degrees outside-- 17 below outside, the cows in that building where were comfortable at 42 degrees, so they didn't know what the weather was like outside. That is a reason for taking care of the animals that the way they're taken care of. Same difference in the middle of the summer when it gets to be 100 degrees, those animals probably don't realize that it's above 80 outside. So this is the reason why the technology has been developed to take care of our livestock, take care of our animals in the way they are. So it's certainly the whole purpose of this equipment that is being discussed today is for the well-being and the care of the animals. So with that, like I say, I would encourage you to look at a couple of the other instances that have been put into this letter. But with that I will answer any questions.

SMITH: [02:14:21] Thank you, Mr. Johnson. Questions from the committee? I see none.

ROD JOHNSON: [02:14:26] Thank You.

SMITH: [02:14:27] Thank you for your testimony. We continue with proponents of LB907. Welcome.

AL JUHNKE: [02:14:43] Thank you, Mr. Chairman and members of the committee. My name is a Al Juhnke, A-l J-u-h-n-k-e, and I'm the executive director of the Nebraska Pork Producers. So I just want to add on to what you've already heard, maybe bring you a few piece information that will help, help in your decision making. And I want to thank Senator Baker, too, for recognizing this problem. Midwest Equipment is in his district, and they came to him and he's responding and I think that's how the legislative process should work. So I appreciate what you're doing here today. We do believe, like everyone said, and it's already been said, I think, by Senator Schumacher that this is just simply a misinterpretation of current law. And so it should be relatively easy to fix. But until it does, it could cause a number of issues going forward. From a pork producers standpoint, and frankly as a policy maker in your shoes, what I always would want to know is what do other states do? Are we an island on this or is this something new and different or whatnot? So I-- Nebraska is number six in pork production, and I-- it's pretty easy to find bigger states close to us; Iowa is number one and Minnesota is number three. So I popped out onto their Department of Revenue sites and pulled up their information sheets. Minnesota, when I look up their exempt farm machinery, they include ventilation fans for animal health and welfare, which is what's been inserted in this bill for clarity, and they go on to say ventilation systems that directly affect the health and productivity of livestock. So they do include these systems in Minnesota. Iowa, again the biggest pork production state, in their-- in their publication, exempt for dairy and livestock prevention production, they have a whole page full. And included that is barn ventilators, fans and fans systems, shutters and shutter systems. And so they go down and within that list includes all the thing that we are talking about here that the department is somehow thinking should now be taxed. They do not do it in other large pork production states because they do understand that that's for health and welfare in raising of animals. And in fact, I even, to be fair, I pulled Nebraska's list too. And they have fans, heaters, and shutters listed on their list, but then they go on in parentheses say-- portable, comma, and then--for hog confinement. Well, these systems that we're selling now are certainly for hog confinement. I'm not even sure what portable fans and heaters would be in today's modern day production systems. That's something you might have seen 20, 30 years ago. So you know I asked the department, and I would ask you to ask the department, I don't know how often these lists are updated and how much they're modernized. I know interpretation, a lot of times, we don't have ag people in some of these departments, they don't understand the changing equipment uses and production practices on our farms. But clearly to us those fans, those shutters, those curtains, those control systems all those things for animal health and welfare are certainly farm equipment. And according to our law and most other states, that is not a taxable asset. So I'd ask for your consideration on this and we appreciate your time. And like I say, hopefully it's an easy thing to fix, but here we are all spending time on it and hopefully we can get some clarification.

SMITH: [02:18:26] Thank you for your testimony. I see no further questions.

AL JUHNKE: [02:18:32] Thank you.

SMITH: [02:18:33] Continue with proponents of LB907. Welcome.

MARK OTHMER: [02:18:47] Chairman Smith, members of up committee, my name is Mark Othmer, M-a-r-k O-t-h-m-e-r. I'm the Nebraska field director for the Iowa-Nebraska Equipment Dealers Association. I'm not to be lengthy. I'm here to support LB907, specifically, because it's taking language that we commonly use in rules and regs and also in some ag information, guides that the Department of Revenue has put out to help explain the ag sales tax exemption, has taken that and actually putting that in state code. I view that as an opportunity to keep the, keep the definition the same without incidentally or accidentally being changed by an additional reg or ruling that gets issued later on in the life of the exemption, so to speak. Just to address something that Senator Schumacher mentioned there about the fiscal note of the tax exemption. I mean, that tax exemption has been around for probably 35 years now, I think, the unusual thing about agriculture, and I say this facetiously, is that we keep inventing new product. And that's where we often run into problems with the rules and regs that are out there is that we invent a new product. Obviously the retailer of that product immediately thinks that it qualifies for the ag sales tax exemption. Several years down the road, the department may take a look at that and they may come up with a different opinion and attempt to write a rule or regulation that changes that. So that's why I support putting that definition into state code. If anybody has any question, I'd be glad to answer them.

SMITH: [02:20:32] Thank you. I see no questions. Thank you for your testimony. Next proponent. We have a-- proponent? Welcome.

SCOTT SPILKER: [02:20:44] Thank you. Thank you, Chairman Smith, and members of the committee. I'm Scott Spilker, S-c-o-t-t, S-p-i-l-k-e-r. I'm a farmer from Beatrice. I want to thank Senator Baker for bringing this bill to the committee. I operate a diversified crop and livestock operation with 1,200 acres of corn and soybeans, and I market 7,000 pigs a year. I'm in partnership with my father, Duane. I urge you to support this bill to clarify the guidelines as to what constitutes equipment as it pertains to livestock production. I believe it was the intent of the original statute, as others have talked about, to exempt sales tax for agriculture equipment that is used to produce crops and to produce livestock. A gray area, as it applies to livestock production, has become what is equipment and what is real property or part of the building. The language in this bill pertains to livestock production clarifies this, and I'm quoting some of the of the line here: agriculture equipment means property used directly in raising or caring for animal life, protecting the health and welfare of animal life regardless of the degree of attachment to any real property. A clear example of this would be say in a tunnel ventilated 2,000 head finishing barn. The fans in this application are not part of the building, but they're specific equipment that we need to generate an optimum volume of air per pig. This equipment is necessary to keep the pigs comfortable and the air fresh, maximizing the health and welfare of the pigs so they can thrive and hopefully make some money. As you are aware, livestock production has changed dramatically over the years. And here's just a few changes, I have some bullet points here. We're-- most of our animals, at least pigs, are housed in enclosed structures. We use precision computer controls to regulate temperature and the air quality, mechanical ventilation is used, as I said earlier, there to deliver specific volumes per pig. Some systems now are using air filtration systems to prevent disease, to capture those disease organisms; backup generators, people have talked about how important those are; and the composting machine is a better option than rendering for the-- for what Mr. Luers commented about earlier. As these changes occur, our statutes need to reflect what constitutes livestock equipment in our modern-- modern livestock production. Just as the gentleman before me said we're-- we're coming up with new products all the time to-- to stay ahead of the curve. Just as the equipment I produce to produce my crops qualifies for the exempt status, the equipment I produce I purchase to produce livestock should qualify for the same exemption. Your support of LB907 will preserve the original intent of this exemption. Any questions? Thank You.

SMITH: [02:23:49] Thank you. Questions from the committee? I see none. Thank you. Next proponent. Ma'am, welcome. Welcome.

DAWN RUCKER: [02:24:06] My name is Dawn Rucker.

SMITH: [02:24:06] Okay, just one moment, we're going to have you spell your name for us please.

DAWN RUCKER: [02:24:08] First name Dawn, D-a-w-n, last name Rucker, R-u-c-k-e-r. My family's pioneers and we built the cattle industry with others in Nebraska and other states. And my concern again in reference to caring for animals are the animals themselves, they said there was a shortage of animals. And they haven't been talking about breeding in materials or things needed for breeding to increase the cattle industry itself. And that's my main concern.

SMITH: [02:24:52] Okay, very good. So you are in support of LB907.

DAWN RUCKER: [02:24:56] Yes.

SMITH: [02:24:57] Thank you very much for being here for testifying.

DAWN RUCKER: [02:24:59] Thank you.

SMITH: [02:25:01] Just a moment, any questions from the committee? I see none. Thank you.

Next proponent of LB907. Welcome.

ANSLEY MICK: [02:25:21] Thank you. Thank you, Chairman Smith, and members of the Revenue Committee. I'll try not to be too redundant here. My name is Ansley Mick, A-n-s-l-e-y M-i-c-k, and I'm here today on behalf of the Nebraska Farm Bureau testifying in support of the LB907, Senator Baker's bill to clarify the intent of Nebraska's laws exempting ag machinery and equipment from sales tax. As you've heard previously, this bill was drafted to ensure the Department of Revenue is abiding by what we believe to be original intent of the Legislature and the department's own regulations as it relates to the sales exemption. When drafting this bill, Senator Baker pulled language directly from the Department of Revenue regulations which state ag machinery and equipment includes personal property used directly in raising or carrying for animal life. There is no doubt the machinery and equipment we've been discussing today is essential to the care and raising of animal life, namely livestock, which is a commercial endeavor. It's our understanding the Department of Revenue's main justification for taxing this equipment is the fact that it's attached to real property. Nebraska statute also clearly specifies that trade fixtures used indirectly in commercial, manufacturing, or processing activities are intended to be exempt from sales tax regardless of their attachment to personal--- regardless of their attachment to real property. Removing equipment like ventilation fans, cooling systems, or generators from a barn means livestock could not and should not be raised there. Throughout our discussions on this issue, including with the department, it became clear the Department of Revenue believes it's incumbent upon the taxpayer to identify on what items they should be remitting sales tax and the regulatory guidance document is not necessarily binding. I would ask the committee to consider the challenge this presents to equipment manufacturers and taxpayers. The statute itself does not indicate what items do specifically qualify for sales tax exemption. The statute only indicates what does not qualify for the exemption. Therefore by all accounts, taxpayers and policy makers have only the regulatory interpretation to rely on. I would also suggest, this was mentioned earlier, that the law was written so broadly to ensure modern technology gets captured. Modern technology improvements are actually captured under this law. Given the necessity of the equipment in question and the fact that by all accounts it hasn't been taxed to this point, this undertaking could put our growers at a disadvantage and discourage investment due to uncertainty at best or new taxes at worst. I also want to quickly clarify the fiscal note associated with LB907 indicates there might be consideration of an amendment which is not the case. Our intent has been and continues to be to encourage the Department of Revenue to abide by its previous and current interpretation of the law. What currently is not taxed should remain untaxed because it's tangible personal property used directly in the carrying or raising of animal life. Thank you to Senator Baker for bringing this bill and thanks for your time. I'm happy to answer any questions.

FRIESEN: [02:28:04] Thank you, Ms. Mick. Any questions from the committee? Seeing none, thank you for your testimony. Any other proponents to LB907? Seeing none, anybody wish to testify in opposition to LB907? Seeing none, anyone wish to testify in a neutral capacity? Seeing none, Senator Baker, you wish close on LB907?

BAKER: [02:28:40] Thank you for your time. I would say that when Mr. Luers first came to me months and months ago, we did attempt to resolve this in other ways. And, you know, Tony Fulton is a tax commissioner, he's a very, very good one at that; but he felt like you need to leave it to some of the people at the lower level and it looked like things just going to go forever and nothing happens. So that's when we determined we would come up with a proposed solution here in the legislature. So with that I close.

FRIESEN: [02:29:20] Thank you, Senator Baker. Any questions? Senator Schumacher.

SCHUMACHER: [02:29:23] Thank you, Senator Friesen; thank you, again, Senator Baker. I guess

I'm unclear is if we pass this, are we going to be 10 million dollars a year, when its fully implemented, short?

BAKER: [02:29:37] When you consider that that type of thing hadn't been taxed before, it's hard to imagine that now suddenly something, a source of revenue we've been tapping for a lot of years is go away. So I don't see it that way.

SCHUMACHER: [02:29:51] Well, I mean, I think when we're working on the floor right now, an item that cost us 200 thousand dollars just jinxes the bill.

BAKER: [02:30:02] I know that.

SCHUMACHER: [02:30:03] Here we're-- I think we can answer is this going to result in 10 million dollars a year less revenue? And I don't-- you might be able to get it.

BAKER: [02:30:14] You know, if you start-- if you start taxing something per se that's going to be taxed a couple of years ago, and then the potential that would have would have been my 10 million more, it was never there to start with.

SCHUMACHER: [02:30:34] I'm real disappointed that the Revenue Department isn't here to explain where--.

BAKER: [02:30:38] Exactly right.

SCHUMACHER: [02:30:39] I'm worried about seeing our revenues drop by 10 million. Unfortunately when you're on this side of the table, you got to look to what the fact is from impact and purse of the taxpayer. And I'm also disappointed they're not here to answer the question earlier of how do we treat similar kind of stuff if inside the building it isn't a cow but a computer. And so I guess-- but that's not your fault.

BAKER: [02:31:09] And I would be willing to write my own fiscal statement too if that would help.

FRIESEN: [02:31:14] Thank you, Senator Schumacher. Thank you, Senator Baker. And with that will close the hearing on LB907. And now we will open the hearing on LB918. Welcome, Senator Bolz.

BOLZ: [02:31:52] Thank you. Good afternoon. I am Senator Bolz, that's K-a-t-e B-o-l-z, I represent Legislative District 29, and I'm here to talk about LB918. LB918 defines high-quality jobs in existing statutes related to tax incentive programs including the Rural Nebraska Advantage Act, the Nebraska Advantage Act, and job training grants. Under this bill a high quality job is defined as one that offers a minimum qualifying wage of at least 150 percent of the average weekly wage and health care benefits. I'll comment that the inspiration from this bill came from our Legislative Council meeting when the Performance Audit Committee reported out on some of their challenges in evaluating our tax incentive programs. One of the exchanges I had with Chairman Kuehn was whether or not there was a definition for high-quality job. And when he answered that there wasn't a strong enough definition, I thought it was important to bring one to this committee for your review. The Department of Labor defines the average weekly wage in Nebraska, in the last quarter of 2016, as 8.75 per week or 45,522; 150 percent of that wage is 68,328 dollars. So the intention of LB918 is to ensure that we're making good investments of our economic development resources. In 2016, the total estimated tax reductions under LB775 in the Nebraska Advantage Act grew from 153 million to 270 million. By 2021, the cumulative tax credit balance under Nebraska Advantage is projected to be 1.46 billion. It's my policy analysis that we should set the bar high to incentivize businesses to create good jobs with our tax incentive programs and state dollars especially because these investments are significant. Of course, other jobs and other wage levels might be created along with the qualifying jobs under a qualifying program, but I think the bar should be set high. It may be worth further discussion about exactly where that bar should be, but I think we should start high and take it from there. I think it's illogical the way we're currently setting wage levels within our tax incentive programs. For example, we currently provide a wage subsidy to jobs earning 60 percent of the average weekly wage or just over 26,000 dollars. An individual supporting a family of four qualifies for the Supplemental Nutrition Assistance Program earning 31,536 dollars. This statute also references a qualifying rate for the rural advantaged program at 8.25, which of course is below our minimum wage. So certainly adjustments are necessary. LB918 would establish a high-quality vision for investing in our jobs of the future. The Nebraska Department of Economic Development commissioned a study from SRI International and they identified four strategic objectives toward our state transition towards a high-quality, high-value economy including focusing on high-skill, high-wage jobs. Their recommendation, which is a little bit different from tax incentives overall, but they recommended that cash incentives be made available for new jobs offering not less than 200 percent of counting median wages. For their high paying jobs are proven to have a multiplier effect which mean that more money is spent in our local economy. So 918 also helps to achieve the goal of access to healthcare through employment by requiring incentivized jobs to offer healthcare coverage. I think this achieves a number of goals including the Performance Audit Committee's reflection that future performance audits would be improved to key terms were defined and benchmarks established to use in measuring the program's effectiveness. I'll point out that other states have set their bars higher in terms of tax incentive programs. For example Oklahoma's definition is 300 percent of the county wages plus health insurance and Iowa's definition is 120 percent of the labor side for the geographical area, plus 80 percent of single employee health insurance benefit. I think with an unemployment rate of 2.7 percent we're not in need of more jobs, we're in need-- we're in need of better jobs and 918 tries to achieve some of-- sorry, 918 tries to achieve some of that. I'll make two closing comments. The first is that the Department of Economic Development's fiscal note references this wage level as having a serious cooling effect on the customized job training program such that a few business suiters would qualify or benefit. Perhaps this wage level is better suited for the Rural Advantage and the Nebraska Advantage programs. I'd be open to having a conversation about whether or not it appropriately applies to the customized job training program. And the final comment I would say is that we needed to pick a wage level in order to get an assessment of what the fiscal impact and impact on the program would be. You can look at the fiscal note and see the long term impact which would illustrate that fewer businesses would qualify. I'm not married to 150 percent, but I do think it should be significantly higher than the average. And I do think that we need to define this wage level in order to get high quality results. Thank you.

FRIESEN: [02:37:17] Thank you, Senator Bolz. Any questions from the committee? Evidently not. Thank you.

BOLZ: [02:37:25] Okay.

FRIESEN: [02:37:29] Is there anyone wish to testify in support of LB918? Welcome.

RENEE FRY: [02:37:42] Thank you. Good afternoon members of the Revenue Committee. My name's Renee Fry R-e-n-e-e F-r-y; I'm the executive director of OpenSky Policy Institute. We support LB918's effort to ensure our incentive programs are creating high-wage, good benefit jobs. Senator Bolz mentioned SRI. They also found that average annual pay in Nebraska is 21 percent below the national average with low wages particularly pronounced outside of the Omaha area. And to reverse this trend, SRI suggested that Nebraska's economic development future cannot be based on growth that generates jobs of any kind but rather a growth that emphasizes high-quality jobs. So currently under Nebraska Advantage, as Senator Bolz said, jobs that pay just over twenty-six thousand qualify for the program, so the average family size in Nebraska, a family of three would be eligible for SNAP, free and reduced lunch, and CHIP. The minimum annual wage for jobs created under Nebraska Advantage would have to equal forty-three thousand five hundred to disqualify family of three from the majority of low income benefits. So despite this low wage threshold for jobs to qualify for Nebraska Advantage incentives the jobs come at a high cost of between 24,000 and 320,000 per job, excuse me, according to the 2016 Performance Audit Report. And Senator Bolz mentioned the cost of these programs, the state's comprehensive annual financial report found that taxpayers spent 362 million on state tax incentives in FY17. So if we plan incentivizing businesses, we should at least ensure that jobs being created are good paying jobs with benefits especially given that we are at structural unemployment. Thank you for your time.

FRIESEN: [02:39:36] Thank you, Ms. Fry. Any questions from the committee? Seeing none.

RENEE FRY: [02:39:42] Thank You.

FRIESEN: [02:39:43] Thank you. Any others wish to testify in support? Welcome.

MOLLY McCLEERY: [02:39:55] Thank you, Senator Friesen, members of the committee. My name is Molly McCleery, M-o-l-l-y M-c-C-l-e-e-r-y; I'm the deputy director of the health care access program at Nebraska Appleseed. We are a nonprofit organization that fights for justice and opportunity for all Nebraskans, and I'm here today to testify in support of LB918. We've talked about a number of figures related to Nebraska's unemployment and labor participation rate with our unemployment rate being the fifth lowest in the nation in 2017 and our labor force participation rate the third highest out of the 50 states in January 2017. These rankings should indicate economic success and a higher quality of life for Nebraskans. But if we take a closer look, it reveals that many in our state are still struggling. Nebraska ranks nearly last in the nation for workers over 18 who have more than one job. And our state is in the bottom 10 in terms of average annual wage. Still we qualify-- many jobs qualify for tax incentives under our system without paying a livable wage or offering health insurance. That figure that Senator Bolz mentioned of 27,331 would be right around the eligibility level for the Supplemental Nutrition Assistance Program or food stamps. It would also qualify a family depending on its household size for the Children's Health Insurance Program for children in the family and child care assistance as well. So essentially these jobs are being incentivized. However families on-- in these positions would be eligible for public assistance programs as well. In order for jobs to-- if we are incentivizing jobs and job creation, they should be a higher quality of jobs, meaning that they should pay better and have better benefits like health insurance. And that's what this bill would do. Under this bill employers would have an incentive to create better paying and higher quality jobs. The tax incentives would be provided to jobs that would be above that public assistance level and would result in a better investment by our state. For these reasons we would urge the committee to advance the bill.

FRIESEN: [02:42:16] Thank you, Ms. McCleery. Any question from the committee? Senator Harr and then Senator Schumacher.

HARR: [02:42:22] Thank you.

MOLLY McCLEERY: [02:42:23] Yes.

HARR: [02:42:23] So it's your testimony that we need incentives that pay for better quality jobs, is that correct?

MOLLY McCLEERY: [02:42:31] So that at the current level of incentives, we are allowing for jobs to be incentivized where those jobs are essentially being subsidized by public assistance.

HARR: [02:42:43] Okay. And how much does this job-- will these jobs pay at 150 percent?

MOLLY McCLEERY: [02:42:49] At 150 percent, I'd have to look at it-- have that figure-- not someone who can do math in my head, so I've had a lot of numbers here, um, at 150 percent of the average weekly wage would be 68,328.

HARR: [02:43:09] It would be what?

MOLLY McCLEERY: [02:43:12] 68,328.

HARR: [02:43:17] Is that for an individual or for a family?

MOLLY McCLEERY: [02:43:21] I believe that is for an individual, the average individual would have--

HARR: [02:43:25] So they would have to make 68,000 before you would receive Nebraska incentive dollars?

MOLLY McCLEERY: [02:43:30] Yes, under this bill.

HARR: [02:43:33] What's the median income in Nebraska?

MOLLY McCLEERY: [02:43:37] The median income, again let me make sure I have this. So the average weekly-- average wage in the last quarter of 2016 was 876 dollars a week or 45,552 dollars a year. So 150 percent of that average is 68,328.

HARR: [02:44:02] I'm all for a high wage, high demand, high skilled jobs, but 68,000 seems, how do I say it nicely, white collar crime jobs. And I think our economy should be more than just white collar jobs. We need to incentivize manufacturing in the state. Do I want to incentivize good job, yes, high paying jobs, yes. 68,000 probably-- you know, that's more than we pay our LAs, and that's a crime, we should pay them more, but I'm a little worried that that number might be a little too high. I appreciate what you are trying to do, but I want manufacturing in this state and I want to bring it back. Maybe it sounds too "Trumpian," but 68 probably is-- we can work with that.

MOLLY McCLEERY: [02:44:56] I would-- after what Senator Bolz mentioned in her opening about 150 percent rate maybe something to look at. Our point on this is that at the current level the jobs are being subsidized by additional state investment through public assistance. So essentially there's two levels of investment in-- by the state and what, you know, that maybe isn't the most effective way--.

HARR: [02:45:23] So where would you draw the line? How much money?

MOLLY McCLEERY: [02:45:25] So at the current rate of 27,331, if you look at the poverty levels for 2017 that's right around 133 percent of the federal poverty level which would align itself with SNAP, the Children's Health Insurance Program and child care subsidies, so something that would get it above 200 percent would be above the range for eligibility for those programs.

HARR: [02:45:53] What is 200 percent?

MOLLY McCLEERY: [02:45:54] Two hundred percent in 2017, I'm glad I brought all these numbers, for a household of-- I believe the numbers we were looking at-- so for an individual 200 percent is 24,120; for a household of four, which was the figure that was mentioned earlier, it would be 49,200.

HARR: [02:46:17] Okay. Thank you.

FRIESEN: [02:46:20] Thank you Senator Harr. Senator Schumacher.

SCHUMACHER: [02:46:23] Thank you, Senator Friesen. Thank you for your testimony. So to be qualifying under the Advantage Act, as it's set up now what does the job have to pay?

MOLLY McCLEERY: [02:46:36] I believe it's 60 percent of the average weekly wage.

SCHUMACHER: [02:46:41] Is that the twenty seven thousand?

MOLLY McCLEERY: [02:46:42] Yes. Yes.

SCHUMACHER: [02:46:44] So we are incentivizing basically our incentives kick in at 27 grand.

MOLLY McCLEERY: [02:46:49] Yes.

SCHUMACHER: [02:46:50] And this particular proposal as it's drafted now would say we don't want to incentivize it unless it brings in 68 or pays out 68 thousand.

MOLLY McCLEERY: [02:47:01] It pays about 150 percent of the average wage, yes.

SCHUMACHER: [02:47:05] Which would be 68 thousand. Have you done any analysis of why with one of the supposedly highest priced incentive programs most costly in the country we haven't been able, using that, to attract workers that are above the 27-- or jobs that are above the 27,000 level?

MOLLY McCLEERY: [02:47:30] I haven't. And I don't know if others behind me would be able to better answer that question but I haven't done any analysis of that.

SCHUMACHER: [02:47:40] Can it be that a lot of the jobs that we're attracting-- or the employers we're attracting just don't-- are paying those low wages simply because they really don't want to be situated here?

MOLLY McCLEERY: [02:47:56] It's possible. It's also possible that they know that they can pay that low of a wage, get the incentive, and then have state investment pick up health insurance and additional support for the family as well.

SCHUMACHER: [02:48:12] So you think basically what we're-- we're double incenting.

MOLLY McCLEERY: [02:48:14] Yes.

SCHUMACHER: [02:48:16] We're using the incentive programs plus we're picking up the tab for these other things through our safety net programs.

MOLLY McCLEERY: [02:48:22] Yes.

SCHUMACHER: [02:48:26] So the fiscal note on this if we were to raise the wage and thus disqualify them from some of the safety net programs may not be as ugly as we think it is?

MOLLY McCLEERY: [02:48:40] Yes I would say that.

SCHUMACHER: [02:48:42] Thank you.

FRIESEN: [02:48:43] Thank you Senator Schumacher. Any other questions from the committee? Seeing none, thank you for your testimony.

MOLLY McCLEERY: [02:48:50] Thank you.

FRIESEN: [02:48:52] Any others wish to testify in support of LB918? Seeing none, anybody wish to testify in opposition LB918?

SEAN JOHNSON: [02:49:14] Thank you, Senator Friesen, members of the Revenue Committee. For the record my name Sean Johnson S e a n J o h n s o n, I'm senior director for business development at the Greater Omaha Chamber of Commerce and am testifying today in opposition to LB918. For the record I'd like it also to show that I'm authorized to speak on behalf of the Lincoln Chamber of Commerce. I'd like to say from the outset that we do appreciate Senator Bolz interest in better defining what a high quality job is in the state of Nebraska and for the purpose of our incentives programs. In fact, crafting LB557 with Senator Harr to update the Nebraska Advantage Act which is still pending in this committee from last session, we recognize that current wage levels within the Nebraska Advantage Act and similar programs are too low and need to be increased. We've said repeatedly that we believe wages in Nebraska are lagging too far behind the national average and it's appropriate to consider raising those. We also have no problem with the requirement that incentive programs only apply to companies that offer healthcare insurance for their employees. We can't think of a single one of our companies in the greater Omaha region that received the Nebraska Advantage Act benefits that do not currently provide this option to their employees. We also note that the Department of Economic Development mentions in the fiscal note that this requirement is already part of their administrative guidance to companies receiving customized job training funds so there's already a precedent for this requirement. So our opposition does not rise from objective to either of these policy objectives but in general rather we believe that our primary incentive program in this state is past due for a complete update and we'd prefer the path forward be one examining the Advantage Act in its totality. On the wage piece we'd like to point out that when we began to craft LB557 our starting point was an average of 120 percent. We soon learned that while that may be achievable in our metro areas it would be difficult standard to meet for more rural companies especially manufacturers that were mentioned previously in discussion. One of the difficulties for utilizing a statewide average wage such as that proposed in LB918 is that it skews too heavily towards the eastern side of the state. Our bill contemplated and proposed a metro and nonmetro average wage to better reflect the economic realities throughout the state of Nebraska. In the same vein a threshold of 150 percent may simply be too high for existing Nebraska companies. While it doesn't pose as much of a problem for big name projects we've recently landed, we know that this body believes that incentives should also be available to homegrown companies especially those in rural areas, a standard of 150 percent might simply be a bridge too far for those smaller and rural companies. In closing we'd like to commit to working with Senator Bolz and this committee as you consider updates to the Nebraska Advantage Act. We are committed to updating the act to better target our resources in order to have a maximum effect on growing and recruiting businesses. We ask the committee to please consider those changes in a comprehensive manner rather than making small changes around the edges. Be happy to answer any questions.

FRIESEN: [02:52:11] Thank you, Mr. Johnson. Any questions? Senator Schumacher.

SCHUMACHER: [02:52:15] Thank you, Senator Friesen, and thank you for your testimony today. We're still cranking out Advantage Act credits today. Correct?

SEAN JOHNSON: [02:52:24] Correct.

SCHUMACHER: [02:52:25] And you guys are expressing some discontent with the present Advantage Act. We've had various committees and task forces look at it. Nobody's walking away cheering it's or singing its praises. Senator Harr's bills languishing we never really got around to discussing it very much detail. Communications hasn't been terribly good between general members of the committee and the chambers. This thing has the prospect of dragging on year after year. It's some talk now that there may be a political deal in exchange for an indefinite extension of the Advantage Act. There be some tax legislation adopted. It's like we're stuck with the present for a long time unless we just suck it up shut it off and force the issue. We can't-- by doing what we're doing now we're making these commitments that drag out 10 years or so and we're spending our option to do anything better by just procrastinating to no end. Is that a fair statement?

SEAN JOHNSON: [02:53:46] I would agree with your statement in effect that now's the time to act. Correct? Right? When's the best time to plant a tree? 20 years ago or today? And if we don't do something now we're only going to continue down the path we are on providing incentives as mentioned earlier for companies paying 60 percent of the statewide average. That's frankly not good enough and we have to do better. So when we shift the perspective or the lens that we look at incentives through from purely a cost to the state of Nebraska to an investment, I think that's the path forward and that's the lens we need to look at these tools from. We compete, and Senator Hart mentioned this earlier, we're competing globally for these opportunities. And whether it's a

Nebraska based business looking to expand or a new company that's considering establishing an operation in the market, it's a-- it's an economic reality that these tools are out there in those markets we are competing against whether it's other states or other countries. So I think there's-- there's-- it's a bigger question to be had about incentives in general; statutory programs and discretionary alike. And I think the committee has heard today in testimony that there's a-- there's a desire to improve the tools that we have, Nebraska Advantage Act specifically, but then also to capitalize and fund those discretionary programs, those customized job training programs, site and building development funds specifically.

SCHUMACHER: [02:55:15] Do you have any statistics or knowledge as to what percentage of the jobs created in the last five years or some increment of time in the Omaha Lincoln area were incentivized and what percentage of the jobs were created by employers who are paying full weight in taxes?

SEAN JOHNSON: [02:55:40] So just to clarify on the question, the question is do I have a statistic for the number of jobs created broken down by those that received incentives and those that did not?

SCHUMACHER: [02:55:47] The ins and outs.

SEAN JOHNSON: [02:55:48] I don't have that number with me today.

SCHUMACHER: [02:55:51] Everything that I have seen and observed is there are just a ton more jobs and a ton more investment done by the unincentivized taxpayer just trying to run a business than the people who receive these incentives. So is it-- is it an incentive program that we need or just a general lowering of the taxes?

SEAN JOHNSON: [02:56:15] I think the most-- the most effective path forward would be a combination of the two, quite frankly. When I am meeting with existing companies today they're leveraging the Nebraska advantage tool because we are a high tax state so they leverage that tool to reduce that overall state tax liability so they can be competitive again on the global scale. So to answer your question I think both.

SCHUMACHER: [02:56:43] But when they leverage it, they suddenly pay way, way less an effective tax than the guy who isn't in a position because he can't leverage it. If you create 100 jobs under one glorious investment, you get all kinds of perks. If a hundred businesses get together and create one job each they get a tax bill. I mean who creates more jobs? It's 100 businesses creating the 1 and 2 jobs. So this this is urgent that we do something to not grow plant a tree but apply a tourniquet. Thank you.

FRIESEN: [02:57:26] Thank you Senator Schumacher. Any other questions from the committee? When I'm looking at the advantage act and there are some portions of it strike me they work pretty well. When you look at the advantage act and from way back when it was enacted and you can include 775 if you want to, do you call it a success?

SEAN JOHNSON: [02:57:51] Absolutely. When you look historically I think at the credits that have been awarded to these companies. You also have to look at the same time at the jobs created, the payroll created, the investment that's been made by those companies.

FRIESEN: [02:58:08] But if we've created jobs that are only paying 24,000, I find that hard to measure as a success.

SEAN JOHNSON: [02:58:14] I'll tell you when we worked through the process on LB557, you know we worked closely with the Department of Economic Development and the Department of Revenue to look at fiscal notes for the impacts that our proposal would have and how it stacked up to the Nebraska Advantage Act as is, what we heard specifically on the fiscal impact side that we found to be surprising was that when we moved that wage lever, when we pulled that and increased, it didn't have an impact on the fiscal note because according to the Department of Revenue the company is receiving benefits under Nebraska Advantage, the majority of those are already paying more than 60 percent of the statewide average. So again that's anecdotal. We didn't ever see any data or download of that report. But I just remember that as we worked through that process that was something that I personally found to be surprising. And so I think there's an opportunity for further conversation in that regard. Where are those credits going, credits refunds exemptions going? Are they purely to jobs that are less than 60 percent? Are they going to jobs that are more than 100 percent? What's the breakdown? I think there absolutely has to be further analysis of the program.

FRIESEN: [02:59:27] It seems like, you know, we've gone, I don't know how many years Nebraska Advantage Act has been in effect, but we have unemployment now in the low 2 percent, somewhere in that area, and wages still aren't climbing. What why not?

SEAN JOHNSON: [02:59:46] I think that's a bigger question outside of just Nebraska Advantage and for the first time I think since the Great Recession you've seen an increase actually in the average weekly wage on a national perspective. So you're starting to, I think in my opinion, see a bit more supply and demand actually kick into effect. But moving forward, just on behalf of the chamber, what we're looking to do is really recruit companies they're going to have an impact on the wage side of things. With sub 3 percent unemployment, we don't have a jobs problem; that's been discussed today. We have a people problem and we have a wage stagnation problem. So when we're out there working with companies, whether they be existing or whether we be working to recruit them to the market, that's one of the first questions we ask. If we feel an inquiry from a company that is looking to establish an operation here, we start with, what are you going to pay? If a company comes and wants to establish an operation here because we're the low cost destination or we have cheap labor, it's going to be tough sledding for them, right? So because it's a tight labor market, they're going to have a hard time finding those employees and we have a very candid conversation with them on the front end. So moving forward, we want to be incredibly targeted about who we're building those relationships as it pertains to recruiting companies to the market and make sure that they're paying wages that we would consider high quality jobs.

FRIESEN: [03:01:07] So do you feel we have a lot of underemployed people in the Omaha metro area?

SEAN JOHNSON: [03:01:13] Yeah, I think the statistics would show that. So we have one of the highest labor force participation rates in the country. In addition to that, I think one in seven or one in eight hold multiple jobs. So for us again that's a, in our opinion, that's a wage issue. So if we had better paying jobs, would that person have to work two jobs to make ends meet? And then furthermore, I think it goes to quality of life. So you have no time to recreate, to spend time with the family, etc. if you're working those two jobs part time, full time, etc.. So if we really focus on growing the wages of those jobs and median income, that's where I think will have the impact on quality of life too, and I think this gets even more into this talent conversation. How do we keep people here?

FRIESEN: [03:01:57] We have a lot of those jobs in rural Nebraska too, and there's people working 60 hours a week, and yes they're making good money, but their job requires 60 hours a week.

SEAN JOHNSON: [03:02:07] No time with the family.

FRIESEN: [03:02:08] And so when I see that we have incentivized low-- kind of a low wage job, it kind of disheartens me I guess in the direction we're going because I would rather see those wages rise. So when we talk about economic development how we move forward what is the most important thing? Is it the corporate tax rate? Is it the individual tax rate? Is it-- and it's-- we can't afford all of the above. We can't afford a huge incentive program if we drop all of our tax rates.

SEAN JOHNSON: [03:02:39] I don't have a solution for you today. What I would say is it's-- it's got to be some level of combination between corporate income tax as well as tax incentives. You know there's some talk about Nebraska Advantage Act needing the tourniquet to shut this thing off. I tell you, you know, we don't want to be one of the only states without a tax incentive program. We've got to have tools in the toolbox to compete domestically and globally.

FRIESEN: [03:03:07] So if we'd lower our corporate rate down to zero, companies going to flock to come here?

SEAN JOHNSON: [03:03:15] There might be an uptick in interest.

FRIESEN: [03:03:18] I don't want interest, we need jobs.

SEAN JOHNSON: [03:03:20] I'll let Director Rippe answer that question.

FRIESEN: [03:03:23] Thank you. I have no more further-- Senator Schumacher.

SCHUMACHER: [03:03:26] Thank you, Senator Friesen. Over the years I've introduced a number of bills to reduce the corporate tax, to refund credit to corporate tax; no support ever from the chamber. What I've been told is the reason is well the people that count, they are already are getting the credits under the Advantage Act so there's no real push at the chamber level for any of that. Kind of a parting, because I'm out of here, I've spent more time on the committee right now than anybody else has. And I'm on my way out and I think the level of communication between the chambers and between the committee, not just one or two people on the committee, was really, really poor at the time that I've been on it. And had it been better, maybe we could have figured out what this animal looks like a whole lot better than the job we've done which is really pretty poor, and so as you gone on, I won't be here, for gosh sake communicate with the group because, you know, if we don't we're just repeating the history that we've done over the last six or eight years. Thank you.

SEAN JOHNSON: [03:04:41] Thank you.

FRIESEN: [03:04:42] Thank you, Senator Schumacher. Seeing no other questions, thank you, Mr. Johnson. Any others wish to testify in opposition? Seeing none, anyone wish to testify in a neutral capacity on LB918? Seeing none, we have some letters, proponents: Dr. Robert Rhodes, Nebraska Medical Association; Susan Martin, Nebraska State AFL-CIO; Sarah Ann Kotchian, Holland Children's Movement. Neutral capacity: John Goodman, the Pew Charitable Trusts; Martha Carter, Legislative Audit Office. With that I will ask you if you wish to close Senator Bolz.

BOLZ: [03:05:24] Thank you. I know it's getting late but I do feel compelled to get some comments on the record. First I have a copy of a revenue ruling from the Nebraska Department of Revenue that will have the page copy and share with you-- with your committee. And it just runs down that Tier 1, 2, 3, 4, and 5-- no 1, 2, 3, and 4. The average annual rate requirement is 24,711. I, for one, am tired of using tax incentive programs that allow companies to access incentives for poverty level wages. I don't think that's appropriate. The Nebraska Advantage Act summary also shows that the total tax credits used and refunds approved 2015 to 2016 were over 78 million. And the average compensation paid to new FTEs was 45,176. That's below average. So we have a worst case scenario here. We have a worst case scenario because we have incentives that pay for low wage jobs and we have no impetus, no lever whatsoever to change the status quo. We aren't moving towards change in spite of this program's significant loss. At the same time that we are spending significant amounts of dollars in our tax incentive programs, we have conversations and requests that come on the other side, to my committee, to the Appropriations Committee for additional investment in the building and site development fund, a customized job training program. So we are not achieving our goals through the Nebraska Advantage program because additional dollars are also requested through Appropriations Committee. So I would argue that this legislation, while it may have set the bar too high, sets it at sixty eight thousand dollars per year, while our current Nebraska Advantage Tier 6 says that we should have wages of at least 61,776. So not so far off of what we're asking for now. I don't mean to belabor the points because I know the hour is getting late, but I would say that this bill offers an opportunity to light the fire underneath all the stakeholders in this state to make some changes that are significantly necessary to a program that's not achieving the goals that it should be achieving. Thank you.

FRIESEN: [03:07:58] Thank you, Senator Bolz. And I really do appreciate you bringing this bill because I do think even though the hour late it's important to talk about it.

BOLZ: [03:08:05] Thank you, Senator.

FRIESEN: [03:08:06] Are there any questions from the committee? So with that I do I really do appreciate it, because when we looked at it I agree with the council meeting it raised red flags. And

I do like parts of Advantage Act. They've probably done their job. But again I think we need to look at the whole package and I think it's time we do it because it's been that way for a long time and no one has addressed it.

BOLZ: [03:08:32] For much too long. And I think you and I, as people who will be returning to this body, should take the chamber seriously when they make comments on the record that they'll partner with us to create wholesale change to this initiative.

FRIESEN: [03:08:46] Yes. Thank you, Ms. Bolz. Senator Groene.

GROENE: [03:08:50] The whole thing sunsets in two years, doesn't it?

BOLZ: [03:08:51] 2020 I believe.

GROENE: [03:08:53] You'll still be here, won't you.

BOLZ: [03:08:53] I'll still be here.

GROENE: [03:08:53] Yeah, you can help rewrite it then.

BOLZ: [03:08:54] Sounds like fun. Thanks.

FRIESEN: [03:09:02] With that we'll close the hearing on LB918. We're done.