

Transcript Prepared by Clerk of the Legislature Transcribers Office  
Revenue Committee, Education Committee, Nebraska Retirement  
Systems Committee April 24, 2019

**LINEHAN:** Good afternoon. Welcome to the Revenue Committee, the Education Committee, and the Retirement Committee. My name is Lou Ann Linehan. I'm from Elkhorn and I represent the 39th Legislative District. I serve as Chair of the Revenue Committee. Senator Groene serves as Chair of the Education Committee. I'll let them introduce themselves so I don't forget someone. The committee will take up-- well, there's only one bill, so that's the bill we'll be hearing today. Your-- this is your opportunity to express your position on the proposed legislation before us today. If you are-- we already know letters of record had to be in by 5:00 last night. To better facilitate today's proceedings, I ask that you abide by the following procedures. Please turn off cell phones and other electronic devices. Move to the chairs in the front of the room when you're ready to testify. The order of the testimony is going to be introducer, proponents, opponents, neutral, and closing remarks. If you will be testifying, please complete the green form and hand it to the committee clerk when you come up to testify. If you have written materials that you would like to distribute to the committee, please hand-- hand them to the page to be distributed. I will introduce them in a minute. We need 11 copies for all the committee members and-- well, we need more than that. We need 16 copies? Sixteen copies for all the committee members and staff. If you need additional copies, please ask the pages. Can you guys stand up right now and introduce yourself just so--

**BRIGITA RASMUSSEN:** Brigita Rasmussen, sophomore at UNL, agriculture and education.

**ERIKA LLANO:** Erika Llano, sophomore at UNL, political science and sociology major.

**CADET FOWLER:** Cadet Fowler, film studies and computer science major at UNL.

**LINEHAN:** And they work very hard and they've been here all year. We appreciate their help very much. When you begin to testify, please state and spell your name for the record. Please be concise. Today we're going to limit testimony to three minutes and we're going to use a light system. So you'll have two minutes on yellow-- I mean, excuse me, two minutes on green and one minute on yellow, and then it'll be red, and I'm going to ask everybody to wrap up at red. We're also going to go, because I want to make sure everybody gets a chance or at

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least it's an equal chance to testify, we're going to go proponents, five proponents, if there are five here, five opponents, and then five neutral, and we'll just keep rotating back and forth. Does that make sense? If your remarks were reflected in the previous testimony or if you would like your position to be known but not wish to testify, please sign the white form at back the room and it will be included in the official record. Please speak directly into the microphone so our transcribers are able to hear your testimony clearly. The committee staff, if they would stand so people can see you, committee staff is back over here, Mary Jane Egr Edson and legal counsel, research analyst Kay Bergquist. And at the end of the table, who's going to be a very busy fellow tonight, Grant Latimer. And with that, I would like the Senators to introduce themselves starting with Senator Murman.

**MURMAN:** Senator Dave Murman from Glenvil, Nebraska, District 38, seven counties, south-central Nebraska.

**BREWER:** Tom Brewer, District 43, 13 counties of western Nebraska.

**PANSING BROOKS:** Patty Pansing Brooks, District 28, right here in the heart of Lincoln.

**BOLZ:** Senator Kate Bolz, District 29.

**KOLOWSKI:** Rick Kolowski, District 31, southwest Omaha.

**WALZ:** Lynne Walz, District 15, Dodge County.

**GROENE:** Mike Groene, District 42, Lincoln County.

**KOLTERMAN:** Mark Kolterman, District 24, Seward, Polk, and York Counties. I'd like to introduce my legal counsel Kate Allen, from Retirement.

**FRIESEN:** Curt Friesen, District 34, Hamilton, Merrick, Nance, and part of Hall County.

**LINDSTROM:** Brett Lindstrom, District 18, northwest Omaha.

**STINNER:** John Stinner, District 48, all of Scotts Bluff County.

**McCOLLISTER:** John McCollister, District 20, central Omaha.

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**CRAWFORD:** Sue Crawford, District 45, which is eastern Sarpy County, Bellevue, and Offutt.

**BRIESE:** Tom Briese, District 41, nine counties stretching from central into northeast Nebraska.

**LINEHAN:** Thank you. Please remember that senators may come and go during the hearing because we expect they might need to leave and come back. Refrain from applause or other indications of support or opposition. I'd also like to remind our committee members to speak directly into the microphones. Also, for the audience, the microphones in the room are not for amplification but for recording purposes only. Lastly, we are electric-- electronics-equipped committee and information is provided electronically as well as in paper form; therefore, you may see members referencing information on their phones or computers. Again, be assured that your presence here today and your testimony are important to us and critical to state government. And with that, I will introduce-- Senator Friesen, take the chair and I will [INAUDIBLE]

**FRIESEN:** Welcome, Chairwoman Linehan.

**LINEHAN:** Thank you, Senator Friesen, Vice Chair Friesen, and colleagues. Good afternoon, Revenue Committee members, Retirement Committee members, and Education Committee members. My name is Lou Ann Linehan, spelled L-o-u A-n-n L-i-n-e-h-a-n. I represent the 39th Legislative District. Today I am introducing AM1381 to LB289. AM1381 to LB289 is the Revenue Committee's proposal for generating property tax relief. The proposal has three main components. First, the proposal will raise sales tax rate and remove the sales tax exemptions for certain goods and services. The proposal raises cigarette taxes. Second, the proposal reduces the taxable valuation for residential and commercial industrial to 90 percent of its market value. The proposal reduces the taxable value for agriculture and horticultural land to 65 percent of its market value. Third, the statutory maximum tax rate for school districts is reduced, and modifications are made to the Tax Equity and Educational Opportunities Support Act, also known as TEEOSA. These components will provide significant increase in state aid to K-12 public education. When implemented, Nebraska would move from 47th in the nation to 20th in the nation in state funding for schools. AM1381 proposes to raise sales tax from 5.5 to 6.25. The increase in the sales tax rate will be credited to the Property Tax Credit Cash Fund. It proposes to repeal the sales tax exemption for

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veterinarian pet services. Veterinarian services for livestock, including beef and swine, etcetera, etcetera, will still be exempt. Moving services, plumbing, heating, and air conditioning services for maintenance and repair, not new construction but for maintenance and repair, storage and services, and bottled water and candy and soft drinks. The amendment proposes to allow the Governor to stay the collection of sales taxes on bottled water for a 60-day period for any area of the state affected by a disaster, emergency, or civil defense emergency. The cigarette tax will increase from 64 cents a pack to \$1 per pack. This increase keeps Nebraska competitive but all of one of our surrounding states. AM1381 proposes to put the 36-cent increase in cigarette tax in the Property Tax Credit Cash Fund. Every property owner would see a 10 percent reduction in their taxable valuation beginning on January 1, 2020. AM1381 proposes to reduce the taxable value for residential and commercial land from 100 percent of market value to 90 percent of market value. Agricultural and horticultural taxable value would be reduced from 75 percent of market value to 65 percent of market value. The statutory maximum tax rate for school districts is reduced from \$1.05 per \$100 of taxable value to 5 cents per \$100 of taxable value plus the school district's general levy. This reduction in General Fund tax rate will have a biggest impact on school districts with the current General Fund tax rate between 95 cents and \$1.05. The proposed reduction in statutory maximum levy begins for school year 2019-20 and each school fiscal year thereafter. AM1381 proposes to challenge-- excuse me, proposes to change the levy exclusion for special building fund projects to be projects commenced prior to the effective date of this act. A Class V school district, of which we only have one, Omaha Public Schools, will be given the authority to levy a-- levy a maximum of an additional 6 cents per \$100 of taxable valuation. The additional levy is to be used to meet the employee contribution to the Class V school employees retirement system. AM1381 contains proposals to modify TEEOSA. The amendment proposes to repeal the averaging adjustment component of formula needs beginning with the school year 2021. There will be a change in the factor used in the calculation of net option funding, which I'll come to in a minute. The local effort rate, or LER, which is part of the TEEOSA formula, many of us are-- hopefully everyone's familiar with, will be set at 90 cents per \$100 of adjusted valuation. The amendment proposes to repeal allocated income tax funds as a component of the formula resources with a certification of 2019-20 TEEOSA. Foundation aid is proposed in AM1381. Foundation aid would begin for the school year 2019-20. Foundation aid paid to the local school system for the

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certification of TEEOSA will be the foundation aid per student multiplied by the K-12 fall member of the local system. Foundation aid per student will be the greater of the state revenue contribution per student or 25 percent of the basic funding per formula student up to a maximum of 157. The state revenue contribution, for 2019-20, a school will receive the greater of the state revenue contribution of 4-- excuse me, of \$3,474.40 per student or 100 percent of the state revenue contribution, which would be \$5,211.60 per student, so that's on foundation aid. AM1381 proposes guaranteed funding aid. If the total state aid is less than 33.33 percent of its formula need, the school district shall receive guaranteed funding aid, so no school would receive less than 33.33 percent of its funding from the state. Equalization aid, as we all know, it remains in place as this net option funding. The basic allowable growth rate for school fiscal year 2019-20 will be 2.5 percent. The basic-- basic allowable growth rate for school fiscal year 2021 and each year thereafter will be the inflation rate certified by the Tax Commissioner. AM1381 changes the certification date for 2019-20 TEEOSA budget authority and allows reserve percentage from June 1, 2019, to July 15, 2019. The amendment has an operative date of July 1, 2019, for Sections 9, 10, 11, 12, 13, and 44. It outright repeals the minimum levy adjustment used in TEEOSA. AM1381 to LB289 contains the emergency clause. You have a copy of the bill summary prepared by the Revenue Committee staff which includes a section-by-section summary of AM1381. Each of you also have a copy of the documents prepared by the Education Committee staff providing additional details on the school funding portion of AM1381. Each of these documents provides additional details of AM1381. I also have an introduction to the amendment, because we know there was a couple of things that didn't get in the amendment that we need to go back. So this is AM1471 to AM1381. This amendment cleans up issues that were discovered after AM1381 was published. Section 1, 2, and 10 of the amendment includes increasing the doc stamp-- documentary stamp, excuse me, from \$2.25 for each \$1,000 of value to \$3.25 for each \$1,000 of value. The increase of \$1 will be credited monthly to the Property Tax Credit Cash Fund. Section 20 of AM1471 expands the purpose of the property tax relief to include real property tax relief in the form of additional funding through TEEOSA. Sections 40, 41, 42, 44, and 46 of the amendment harmonize the change in the effective day with the passage of LB430, 2019, Section 1. Section 42 of the amendment changed how budget authority is calculated for school year 2019-20. The calculation will use the basic allowable growth rate for '18-19 and '19-20 to determine the amount of budget authority. Section

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45 makes changes to the amount of the school district's unused budget authority. A school district that does not use all of its budget authority may carry forward to future-- future budget years the amount of unused budget authority. The tax year in Sections 3, 4, 5, 6, 7, 8, and 9 is changed from prior tax year 2020 to prior tax year 2019. These changes are needed to match the tax year and the payment year for the personal property tax exemption. A new subsection is added in the end of Section 6. The new language indicates the intent of the Legislature to use the \$14 million saved by eliminating the personal property tax exemption to be used to increase the appropriation from the General Fund to the Property Tax Credit Fund. The appropriation will begin in fiscal 2019-20 and each fiscal year thereafter. Section 9, the increase in the cigarette tax indicates the money shall be credited monthly to the Property Tax Credit Cash Fund. Section 11 language clarifies the repeal for plumbing and heating/air conditioning services is-- is for maintenance and repair only, not construction-- new construction. Section 13 changes the timing to credit monies to the Property Tax Credit Fund for the increase in sales tax rate from annually to monthly. Section 14 changes the statutory maximum levy for school districts to 6 cents plus the school district's general fund levy. Section 17, the minimum amount to be transferred to the Property Tax Credit Cash Fund will be \$289 million. AM1381 increases the amount to \$275 million. Beginning in school fiscal year 2019-20, the amount of unused budget authority shall not include any unused budget authority for school fiscal years prior to 2019-20. And with that, I will take any questions.

**FRIESEN:** Thank you, Chairwoman Linehan. Are there any questions from the committee? Senator Kolterman.

**KOLTERMAN:** Thank you, Mr. Chairman. Senator Linehan, you indicated in your opening remarks that the 6 percent that will be allowed for Class V school district, which is OPS, would be used for employee contributions. Actually, the way the bill is-- the amendment is written, it would be only used for actuarially required contributions until--

**LINEHAN:** [INAUDIBLE]

**KOLTERMAN:** --they reach 80 percent for two years consistently.

**LINEHAN:** Right. I'm sorry. Yeah, I must have misread.

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**KOLOWSKI:** No, I just wanted to make that-- get that on the record to correct that.

**LINEHAN:** Thank you.

**KOLTERMAN:** You're welcome.

**LINEHAN:** So it's 6 percent for their ARC payment, and when the-- when they're caught to 80 percent, the-- the 6 percent levy authority would go away.

**KOLTERMAN:** Correct, after two years of being at 80 percent.

**LINEHAN:** But it's only in the Omaha Public School System, so just taxpayers--

**KOLTERMAN:** They're the only Class-- correct, they're the only Class V district that we have, so, well, we're-- that's why we're doing it the way we are.

**LINEHAN:** Thank you very much.

**FRIESEN:** Thank you, Senator Kolterman. Any other questions from the committee? Senator Crawford.

**CRAWFORD:** Thank you, Vice Chair, and thank you, Senator Linehan. In our conversations about this bill, one of the issues that you've talked about is the importance of trying to build trust with the local schools in terms of if we give more aid and have less property tax value, then can they trust us to keep doing that. You've talked about a mechanism whereby if the state increased the local effort rate, then the levy ability would also increase, and I just didn't see that reading through the bill. Is that still your intent to have that assurance mechanism in so that if the state comes around and increases the local effort rate, that schools would increase their levy limit?

**LINEHAN:** I don't think that's in the bill, but what we're doing here is trying-- and there's a specific reason that we put all the funding, the new revenue into the Property Tax Credit Fund, so it doesn't go into the General Fund, so we don't have what we've had for the last 30 years. When we're short on money, we dial back the local-- dial back or dial up the local effort rate. So we're trying to-- we are locking

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off the revenue from other revenue so we make sure that we keep our promise that the aid goes to the schools.

**CRAWFORD:** By putting it in the Property Tax Fund, so that's why you don't have that other mechanism in place right now?

**LINEHAN:** Well, I don't-- I don't think we can-- I mean the big-- this is a very large lift, and we are shifting revenue sources around, which I think is fair because our property taxes are-- I think most agree that they are out of line. But we've got-- the schools aren't going to have any confidence in us unless we find a way to make sure that we are setting aside that funding from now forward so they know that the schools aren't going to come back and jiggle around with the local effort rate.

**CRAWFORD:** Thank you.

**LINEHAN:** Thank you.

**FRIESEN:** Thank you, Senator Crawford. Senator McCollister.

**McCOLLISTER:** Yeah, thank you, Vice Chair Friesen. Senator Linehan, we talked about-- at a meeting a week or two ago about the-- the current right that school systems have for an override program. Is that in-- in this bill in some fashion?

**LINEHAN:** Is it-- we didn't change that at all. That would stay exactly as it is. So if there's things that aren't in this bill, we didn't-- we didn't change the statute, so they would still have the ability to do a levy override.

**McCOLLISTER:** Thank you.

**FRIESEN:** Thank you, Senator McCollister. Senator Stinner.

**STINNER:** Yeah, Section 17, and I'm going to read the Section 17 to you, and then explain to me what it means. On or before July 19, 2019, and on or before January 30, thereafter, the Department of Revenue shall determine the minimum amount necessary to be appropriated to the Property Tax Credit Cash Fund to carry out the requirements of the Property Tax Credit Act. What are the requirements? And-- and then you're going to have Revenue basically dictate to the Legislature, Appropriations Committee, how much they have to put in it? Is that--

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**LINEHAN:** Yes.

**STINNER:** Was that the intent?

**LINEHAN:** Yes, because, again, we can't expect this-- because of history, the schools are skeptical that we will actually keep-- keep this in place. So we are, yes, saying this revenue is going to go to public education, public K-12 education.

**STINNER:** And what-- what revenue, of the revenue that's in this act, the Department of Revenue accumulates and says this will go into the Property Tax Cash Fund--

**LINEHAN:** Right, and money from there will go out in school aid.

**STINNER:** OK.

**FRIESEN:** Thank you, Senator Stinner.

**STINNER:** Ok. And the-- and the minimum amount--

**LINEHAN:** So it's not even about--

**STINNER:** --minimum amount is 275, though, so we don't get--

**LINEHAN:** No, 275 plus all the other revenue we're generating here.

**STINNER:** Oh, 275 plus, OK.

**LINEHAN:** Plus new revenue, because this whole conversation has been any new revenue raised is going to go to property tax relief, not to other spending--

**STINNER:** OK.

**LINEHAN:** --which we've been hearing how that's going to happen. So this is our effort to make sure that does not happen.

**STINNER:** So you're basically insulating Appropriations away from making any decisions relative to this.

**LINEHAN:** Yes, we are.

**STINNER:** OK, just wanted to make sure I understood it.

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**LINEHAN:** Yes.

**FRIESEN:** Thank you, Senator Stinner. Senator Pansing Brooks.

**PANSING BROOKS:** Thank you. Thank you, Chairman-- or Senator Friesen. Thank you for working so hard on this, Senator Linehan. I know you've been really, really passionate to try to fix something and to-- to--

**LINEHAN:** The whole committee has worked very hard.

**PANSING BROOKS:** Yeah, the whole committee. But what-- I guess what-- I have to bring up the three-quarter cent because in my district there are a lot of people in poverty and I know that's true across the state. So why is one key component of this a regressive tax, the increase on --basically the-- a lot of people in my district who are really struggling day to day, rather than putting this across people who can afford this better?

**LINEHAN:** So we figured this out. If you spend \$10,000 in a year, which is, I would guess, more than most people in poverty have to spend, it's a \$75 increase. And Senator Crawford has talked about adjusting the Earned Income Tax Credit to account for that, so--

**PANSING BROOKS:** OK. And you know that I'm a big proponent of the Earned Income Tax Credit as well. It still is difficult on seniors who are-- because the Earned Income Tax Credit is only for working families, as you know, so it is concerning to me. Even \$75, to a family who's really struggling and in poverty, that's a lot when you're trying to figure out health insurance and childcare and everything else that's going on, so I just--

**LINEHAN:** But we also-- you also mentioned seniors and seniors--

**PANSING BROOKS:** And seniors.

**LINEHAN:** --are one of the groups that are hardest hit--

**PANSING BROOKS:** Exactly.

**LINEHAN:** --by property taxes.

**PANSING BROOKS:** Yeah, and-- yes, and-- but also by a regressive sales tax when you're on a fixed income. So anyway, I just wanted to bring up those-- those thoughts. On-- on the school funding, I just wanted to ask a little bit about-- I don't know. There's so many things, as

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you know, to ask, and I don't know whether we should wait till the end and-- and ask questions or what--

**LINEHAN:** Well, I think somebody-- I think Mr. Wilson from Nebraska Department of Education is here. So if you want to get technical questions, I think he's probably the state expert.

**PANSING BROOKS:** OK.

**LINEHAN:** I am certainly not.

**PANSING BROOKS:** All right. I'll wait.

**LINEHAN:** OK.

**PANSING BROOKS:** Thank you, Senator Linehan.

**FRIESEN:** Thank you, Senator Pansing Brooks. Senator Groene.

**GROENE:** Thank you, Vice Chair. To follow up on Senator Stinner's, wouldn't you be able to say right now we dictate, the Legislature does, to the Appropriations Committee they shall appropriate \$224 million to the Property Tax Credit Fund? And what we are doing here is we're adding the \$51 million to it that the Governor in his budget supplied and then plus the \$14 million, that was the personal property tax in the shell, should be \$281 million instead of \$224 million. But that's not unique or nothing or anything that's ever been-- not been done before. Is that not correct?

**LINEHAN:** The way I understand it, that's the way TEEOSA was created originally that they were supposed to fund a percentage.

**GROENE:** I'm talking about the funding the Property Tax Credit Fund.

**LINEHAN:** Right. Right. So what we tried to do, as you well know, Senator Briese, all of us, tried to make sure that any new revenue we raise actually goes out to property tax credit relief.

**GROENE:** And then the legislation also states clearly that once the money's in there, the first-- call it the lien on that money is the Department of Education to fund this--

**LINEHAN:** K-12 education, yes.

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**GROENE:** --to make sure it follows through.

**LINEHAN:** Right.

**GROENE:** Thank you.

**FRIESEN:** Thank you, Senator Groene. Any other questions from the committee? Senator Bolz.

**BOLZ:** I have just two if that's OK. One is, and please correct me if I'm wrong, Senator Linehan, I think I've heard discussion about this as reducing property taxes by 20 percent. Is that--

**LINEHAN:** Yes.

**BOLZ:** So-- and that's significant. That's [INAUDIBLE]

**LINEHAN:** And that's an average and it's school property taxes, not all property taxes.

**BOLZ:** OK, maybe that's the clarification I need because property taxes are about \$4 billion, so 20 percent would be \$800 million. You back out the existing property tax credit of \$225 million. I don't see \$575 million being raised from this bill. Is that correct?

**LINEHAN:** It is about 575 in the second year, yes.

**BOLZ:** It's 575 in the second year?

**LINEHAN:** Well, I don't have that chart right in front of me, but I think they handed out a packet today and there's a--

**BOLZ:** OK.

**LINEHAN:** --list in there that shows you. And these are all big, round numbers, right?

**BOLZ:** OK.

**LINEHAN:** So we don't know. But if you drop the levy 10 cents and you drop valuations 10 cents, that comes up 20 percent.

**BOLZ:** OK. So just so I've got it clear in my head, it's 5-- you're raising 575 in addition to the 225 currently in the Property Tax Credit Fund.

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**LINEHAN:** I don't have. So we-- I don't have it right in front of me, but is there a packet?

\_\_\_\_\_ : It's in your packet.

**LINEHAN:** It's in my pile right there--

**BOLZ:** OK.

**LINEHAN:** --exactly what it is.

**BOLZ:** OK. I'll see if I can find it in the tabs. The-- the other question--

**LINEHAN:** But we are using the Property Tax Credit Fund and we're also using, or we want to use, the \$51 million that the Governor put in the budget this year and the \$51 million that he put in the budget-- his budget for next year. That is funding that's going out-- the 224 is going out in property tax credit funding now. So we put-- because there's nothing, as we all know, right now that-- that money is-- it's not blocked off.

**BOLZ:** Um-hum. Is your goal \$800 million total in property tax relief then?

**LINEHAN:** Well, the way this works is every year that general revenues go up, our funding for K-12 goes up, so over time, yes--

**BOLZ:** OK.

**LINEHAN:** --it will be significant. It's-- the biggest thing about this bill, and I'll go back to moving Nebraska from being 47th or 46th in the nation on state funding, this bill jumps us to 20th in the nation. And then if we stay true to our goals here and not slip back, we will pick up more and more-- because our revenues will grow, we'll pick up more and more K-12 school spending into the future.

**BOLZ:** OK. That's helpful. My other question is related to tying spending growth to the Consumer Price Index. And just-- I have two questions about that. One is I'm wondering whether or not that will put schools in a bit of a bind. And I think that for a school district like Lincoln, that makes me pause just a little bit when we've got multiple pressures, but it also makes me pause from an efficiency perspective. I think sometimes schools negotiate multiyear contracts

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and that helps them create efficiencies. But if they have that 2.5 or CPI percent index cap, that might limit their long-term planning and-- and I'm wondering whether or not that-- whether or not that will be sufficient for health insurance. So I just would like to hear you talk about the CPI limitations a little.

**LINEHAN:** Right, right, and there will be-- I'm sure we'll have several representatives of public education here and they're going to say that's very difficult, but here's my response to that. That is what all the taxpayers live with. When you live, you're on Social Security or you're a laborer, your salaries go up pretty much according to CPI. Now when we're young, we make less and we get older and more experienced, we make more. But when all the people who are writing the checks to pay the bills have to live within that, I don't think it's that much to ask for public institutions to try and live with that range too.

**BOLZ:** Um-hum. Do you happen to know what the average health insurance increase has been over the past few years? Do you [INAUDIBLE]

**LINEHAN:** Yes, because I buy health insurance.

**BOLZ:** It just-- it seems to me that it's probably significantly higher than CPI and I just-- that's a-- that's an expenditure that we-- we can't ignore.

**LINEHAN:** Right, but what-- what many people-- and I know this won't be a popular thing to say here. But what most people in the private sector have done when their insurance rates have skyrocketed, they've gotten less benefits and paid more out of their own pocket.

**BOLZ:** Um-hum. Um-hum. OK. Thank you, Senator.

**FRIESEN:** Thank you, Senator Bolz. Any other questions? Senator Walz.

**WALZ:** I have a question. Thank you. Thank you, Senator Linehan. So it looks to me like the new revenue would go into the Property Tax Credit Fund and then TEEOSA would be paid out from that, and anything left over would go back into the Property Tax Credit Fund. Is that correct?

**LINEHAN:** Right. It would stay there or be paid out depending on-- you could still pay it out in Property Tax Credit Funds.

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**WALZ:** OK. So my question is, what happens if new revenue doesn't raise as much as we estimate it will? What happens then?

**LINEHAN:** Well, again, everybody will have to do just what we did the last two years. You're not going to have any increases. I mean Senator Stinner can give us, I'm sure, hours of explaining what you do when your revenues aren't what they think you're going to be, I mean, but historically they've gone up 4.6 percent every year so we should not have a hard time meeting that budget and that growth. But if we have a bad year, a recession year, then, like the state government and county governments and city governments, you're going to have to tighten your belt if you have a bad year, which the schools already have done that. I mean there's plenty of schools, I'm sure some of them are here tonight, that will explain that they have kept their growth below inflation.

**WALZ:** Thank you.

**FRIESEN:** Thank you, Senator Walz. Any other questions from the committee? Senator Crawford.

**CRAWFORD:** Thank you, Vice Chair Friesen. I know we've talked about this off the mike, but I just wanted to have it on the record. Why decrease the valuations outside of the formula? So if you decrease the valuations, we're decreasing valuations across for all political subdivisions and we could do a-- and the only subdivision that we're giving money, aid to are the schools. So why not instead focus on changing the formula to make the relief that we need and not-- not change the valuation for all political subdivisions?

**LINEHAN:** Because, as we've discussed, and no one knows for certain, my guess is if we do that, we'll get a court challenge and nothing will happen for two years as it works its way through the courts, because the constitution is pretty clear that you have to value property the same.

**CRAWFORD:** Yeah. I'm talking about inside the formula as opposed to just changing valuation outside the formula for education.

**LINEHAN:** Well, I think if you tell schools that they only get to value property at 90 percent or 65 percent and everybody else gets 100, there will be a court challenge. Whether it's inside the formula or

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outside the formula, I mean, that-- I can't-- you got 244 school districts, somebody will think that's unfair.

**CRAWFORD:** So in-- now that we have it across subdivisions, we have several of our smaller cities that are bumping up against their levy limits. Do you anticipate some relief for those folks that hit the levy limit when--

**LINEHAN:** Yes, we're going to have to look at that.

**CRAWFORD:** Thank you.

**LINEHAN:** And then the other-- as you'll recall from LB103, which we passed earlier this year, if they're not up against their levy limit, when their valuations drop, their levies will automatically go up, so they're not going to have to vote or-- if they're up against the levy limits, we do have to address that and we have not, as a committee, sat down and figured out how we're going to do that yet.

**CRAWFORD:** Thank you.

**FRIESEN:** Thank you, Senator Crawford. Senator Stinner.

**STINNER:** Thank you. And thank you, Senator Linehan, for all of your work and the committee's work. This is incredible stuff and it takes a while to digest it all. But I do want to make one comment and maybe a little bit in-- in reference to the Property Tax Relief Fund. Property Tax Relief Fund is discretionary funds. We can actually take it to zero based on the way the law is written today. What this does is really add some permanency to it so that we can't take it away. I just want to make that clear--

**LINEHAN:** Thank you.

**STINNER:** --just for the record so--

**LINEHAN:** Yes. Thank you very much.

**FRIESEN:** Thank you, Senator Stinner. Senator Groene.

**GROENE:** To clarify, too, on Senator Crawford's, there is a reason the committee put the 90-- the increase in the valuations into the second year. Whether or not that budget cycle start in August, September, if you went-- if you decrease the valuations the very first year, all the local entities would have a hard time adjusting for it. In fact,

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we're-- we're giving them a year to adjust to those new valuations for the counties, to setting their new budgets, and we would have another legislative session to hold harmless on-- on the levies, on the levy limits. They could still-- no local entity, I don't believe, would be harmed. They would have to lower-- raise their levies because the-- just like they do now, or do not do when valuations go up--

**LINEHAN:** Right. It's automatic now.

**GROENE:** --it'd be-- but we give them a year.

**LINEHAN:** Right.

**GROENE:** Yeah.

**LINEHAN:** Yeah. Thank you.

**FRIESEN:** Other questions?

**GROENE:** Yes. She said yes.

**LINEHAN:** Yes.

**FRIESEN:** Thank you, Senator Groene. Any other questions from the committee? I have one question, I guess. As-- as-- when you look at the funding growth, the per-student funding will be growing at 4.7 percent or whatever the--

**LINEHAN:** Four-point-six, I think I said.

**FRIESEN:** --whatever the growth is, whatever it happens to be that year. So those-- those schools now that are funded that would receive more money with their base funding of 33 percent, that would be for basically all the small schools out there, basically their state aid would be growing at the CPI. Would that be correct?

**LINEHAN:** I would think that there's-- well, it'd be CPI plus growth, yes.

**FRIESEN:** Yes, CPI plus growth. I--

**LINEHAN:** Right. Right.

**FRIESEN:** OK. Thank you. Senator Pansing Brooks.

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**PANSING BROOKS:** Just a follow-up on what Senator Crawford and Senator Groene were talking about. It seems that by lowering the levies and for all the taxing entities, isn't that taking away local control?

**LINEHAN:** We don't lower the levies for all the taxing entities.

**PANSING BROOKS:** Well, all the ones that are up against the limit, for those that are up against their-- their local limit.

**LINEHAN:** Right, which I think--

**PANSING BROOKS:** And [INAUDIBLE]

**LINEHAN:** --we do need to address that, yes. But they-- so when their valuations drop the 90 percent--

**PANSING BROOKS:** Yes.

**LINEHAN:** --because of LB103, the mil levy goes back up, so they get the same amount of money unless they're up against the levy limits, which is some smaller cities. I don't think-- I don't recall any big city or big county being up against their levy limit, so we are going to have to address that.

**PANSING BROOKS:** OK. And then also, will the school spending grow with the sales and income tax cuts or just the foundation aid?

**LINEHAN:** Well, the school spending will grow CPI plus growth, and the foundation aid will grow as well on whatever the revenue increases are. And, you know, we know this from being here for last few years, they jump around a little bit, they're not-- it would be a better world, Chairman Stinner, if we knew every year exactly how much they're going to be up or down.

**PANSING BROOKS:** OK.

**FRIESEN:** Thank you, Senator Pansing Brooks.

**PANSING BROOKS:** Thank you.

**FRIESEN:** Senator Walz.

**WALZ:** Speaking of we never know, so I think that you are counting on the \$51 million in Appropriations to budget for the Property Tax Credit Fund, and obviously we still have a lot of cuts that we have to

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make. So what will happen if you don't get-- or how could you modify the plan if you don't get the full \$51 million through Appropriations, if I'm reading that right?

**LINEHAN:** Well, we plan on getting the full \$51 million. [LAUGHTER]  
That's how. Here's what we're--

**WALZ:** Well--

**LINEHAN:** We're already doing what scares the schools behind us. They-- you can't say you're going to do something and then start talking about what if, what if, what if. We're-- we're going to block away 25 percent of our general revenues and we're going to support K-12 public education in the state Nebraska at a rate that is slightly above the national average. Ever since I've been elected, I have heard that we don't pick up our fair share, that we're 46th or 47th or 48th in the country. We are moving ourselves up to 20th in the country, and we are committing that we're going to stay there.

**FRIESEN:** Thank you, Senator Walz. Any other questions from the committee? Seeing none--

**PANSING BROOKS:** I guess I have a question. So do--

**FRIESEN:** Senator Pansing Brooks.

**LINEHAN:** There are other people, you know.

**PANSING BROOKS:** Oh, OK. Well, sorry, but that's OK. So you've seen-- I presume you've seen the sheet that was passed out for years by Speaker Hadley that showed the-- the cuts that we've made to property taxes and other things. Have you seen that? Have you seen that before?

**LINEHAN:** I've seen it. I've never-- I've never been a big proponent of that list.

**PANSING BROOKS:** OK. It just shows over time what has been done. And arguably, people do not feel that it was enough. And so I guess what I'm interested in, have you been working with the-- with the groups that are supporting the property tax cuts to-- to know that this will actually be enough? Will this--I mean when-- when efforts were made previously to-- to insert money into the property tax rebate fund, or whatever that is called-- I'm so sorry. I can't--

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**LINEHAN:** Property Tax Credit Fund.

**PANSING BROOKS:** Yeah, credit fund, thank you. No, people weren't happy. It wasn't enough. And so when these efforts are made, I mean, do you feel that-- that the farming groups-- and I can ask them, I know, but I-- I presume you've worked with a number of them and-- have you?

**LINEHAN:** Oh, yes. I have two of them on my committee.

**PANSING BROOKS:** Yeah. Well, I'm just wondering how happy they're going to be and if-- if we're-- if this is something--

**LINEHAN:** Remember, they're--

**PANSING BROOKS:** --it's never going to be enough.

**LINEHAN:** We have 244 school districts ranging in size--

**PANSING BROOKS:** I know the schools aren't happy. I'm wondering--

**LINEHAN:** No, no, no, no. But wait, 200--

**PANSING BROOKS:** --are some--

**LINEHAN:** I'm sorry. And you have constituencies in all those school districts.

**PANSING BROOKS:** Right.

**LINEHAN:** Some of those school districts get a significant amount of money back in their districts from the Property Tax Credit Fund. Some districts get a significant amount of funding, up to 60-70 percent of funding, from equalization aid. Then we've got a bunch of schools and homeowners and ag producers where they're getting very little from the Property Tax Credit Fund and they're getting next to nothing from the equalization fund. So, yes, we have worked very hard to try and figure out how we take the little school out here with very few kids and a lot of property and make it fair for them and make it fair for the students, because this really is about the students in those schools, make it fair for the students in those schools that are getting basically no state funding and making sure that we don't hurt our urban, large schools like Lincoln, Millard, and Omaha, and protect their equalization aid. So what we're trying to do is treat everybody fairly out of-- I've looked at this-- well, we started last summer

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with the group of 10 senators, or 11, that looked at TEEOSA all summer, and the longer you look at it, you realize you just could not come up with an explanation of why, how is fair. It is not fair and that's what we're trying to do here is be fair to everyone.

**PANSING BROOKS:** Thank you, Senator Linehan.

**LINEHAN:** Thank you.

**FRIESEN:** Thank you, Pansing Brooks. Any other questions from the committee? Seeing none, thank you, Chairman Linehan.

**LINEHAN:** Thank you, Vice Chairman.

**FRIESEN:** And we'd ask proponents who wish to testify to come forward.

**JACK MOLES:** Afternoon, Senators. I am Jack Moles, J-a-c-k M-o-l-e-s. I am the executive director for the Nebraska Rural Community Schools Association, also referred to as NRCSA. On behalf of NRCSA, I would like to testify in favor of LB289, AM1381. Our members appreciate the work that Senator Linehan and Senator Groene have put into this attempt to better address the needs of all school districts. We especially appreciate two concepts in the bill and the amendment, the first being the establishment of aid per student, the second being state funding at 33 percent of basic funding. This would help to slow the flow of state funds from the rural areas which has caused such a high reliance on property taxes. When 175 out of 244 school districts no longer receive equalization aid, we believe we have a problem, and this bill and amendment are attempts to address that problem. NRCSA does have some concerns with some of the effects of LB289 and AM1381 though. We do have concerns about the caps placed in the bill. Our preference would be to utilize Senator Linehan's well-thought LB103 as a check on school spending. Second is we are also concerned about the effects on educational service units, which are vital to our rural public schools. With possible decreased funding to ESUs, we would expect to see either reductions of much-needed services or cost for such services being passed onto the school districts, thus increasing school district expenditures. The third thing is we are concerned about lowering the maximum levy for the special building fund from 15 cents to 5 cents. Many boards of education have been able to save their districts hundreds of thousands, sometimes millions of dollars in interest payments in their judicious use of the special building fund. You're going to hear about the possibility of combining aspects

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of Senator Groene's LB695, Senator Friesen's LB497, Senator Briese's LB314, Senator Linehan's LB103, and I would add Senator Crawford's LB614, in a little bit. NRCSA encourages the committee members to give both LB289 and AM1381 and that concept your full consideration. We have confidence in you to find a pathway to addressing the school finance, property tax issues that we currently face, especially in most of our rural districts. In closing, I would like to repeat that NRCSA does thank Senator Linehan and Senator Groene-- Groene for their work on this plan. We encourage you to consider all options. Thank you.

**FRIESEN:** Thank you, Mr. Moles. I just want to point out one thing I think that you said is state funding of 33 percent of basic funding, and I think the bill now reads basic-- the needs.

**JACK MOLES:** Yes.

**FRIESEN:** OK, thank you. Any questions from the committee? Senator Groene.

**GROENE:** You haven't-- thank you, Vice Chair. You haven't seen it, but there's an amendment to take the-- the max levy to 6 cents to make sure-- to account for the lowering of the valuations by 10 percent.

**JACK MOLES:** OK.

**GROENE:** That would be more than what an equalized school district can do now. And the building fund has not been changed. It's still 14 cents, but it has to fit underneath the 6 cents.

**JACK MOLES:** Right.

**GROENE:** And everybody who has a project out there is grandfathered in.

**JACK MOLES:** Yes, I did-- I do realize that.

**GROENE:** You did see all of that?

**JACK MOLES:** Um-hum.

**GROENE:** Thank you.

**FRIESEN:** Thank you, Senator Groene. Any other questions from the committee? Senator Crawford.

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**CRAWFORD:** Thank you, Vice Chair Friesen, and thank you, Mr. Moles, for being here. I guess I was just interested in your comments. You're talking about your concern about decreased funding to ESUs. I mean, do you see that in this bill somewhere or are you just concerned that may happen outside--

**JACK MOLES:** They do lose taxing authority out of this, don't they?

**CRAWFORD:** OK. I see what you're saying.

**FRIESEN:** Thank you, Senator Crawford. Any other questions from the committee? Senator Murman.

**MURMAN:** Agriculture has seen huge increases in property taxes payments, and especially since about 2012. Are you satisfied that this bill provides property tax relief to the vast majority of farmers that have seen those tremendous tax increases from 150 to 300 percent?

**JACK MOLES:** I believe-- well, it would help compared to where we are right now, yes.

**MURMAN:** OK. Thanks a lot.

Thank you, Senator Murman. Any other questions from the committee? Seeing none, thank you for your testimony.

**JACK MOLES:** Thank you.

**FRIESEN:** Welcome.

**STEPHEN GRIZZLE:** Good afternoon. My name is Stephen, S-t-e-p-h-e-n, Grizzle, G-r-i-z-z-l-e, and I'm superintendent of Fairbury Public Schools. I want to thank the committee members and let you know that Fairbury Public Schools is submitting this proponent testimony for LB289 that proposes widening the sales tax base and reducing tax exemptions in an effort to increase state aid to schools and to provide much-needed property tax relief. But we also want to note some concerns with elements of this legislation as well. Fairbury is located less than 70 miles southwest from this Capitol Building, and we are proud members of NRCSA and of the STANCE educational groups. We believe that when you think of Nebraska educational communities, we are representative of that picture. We want to begin by thanking the Revenue Committee for your willingness to tackle this difficult work towards creating property tax relief for our patrons. Fairbury Public

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Schools is similar to many of our fellow NRCSA and STANCE districts that no longer receive adequate sources of revenue except for local property tax receipts. LB289 attempts to address this. We want to thank you for your efforts. The model being circulated for your proposal in LB289 uses 2017-18 as the year to illustrate what your changes could do for districts. For Fairbury, state aid in 2017-18 was only \$111,000, which was .82 percent of our total revenue. Our first table, which is the-- the orange table, illustrates how our reliance on property taxes have increased as our state aid has dwindled over the years. In looking at your model for LB289, our state aid would have been increased by an estimated \$3.4 million that would become 29 percent of our revenue for 2017-18, and our property tax request would have dropped from \$9.9 million, which was 80-- almost 82 percent of our revenue, to \$5.7 million, which would be lowered to 47 percent. That would have been a 42 percent drop in local property tax request, and that is real property tax relief. Now our concerns with LB289 center around the additional lids and caps you've proposed. Fairbury Public Schools believes that school districts have been unfairly characterized as being the reason for the reliance on local property taxes. Several local property-- several elected officials say local property taxes are high because of out-of-control school spending. The second table illustrates how we have slowed our expenditure growth from year to year drastically over the last three years. We believe the current limits and tables in place are working. We pride ourselves on being fiscally responsible and conservative, as most districts try to be as well. Our last concern centers around the reduction of the local school board's ability to exert local control and utilize a special building fund to maintain aging buildings and improve existing facilities. We believe the current levy limit of 14 cents is workable. And our last table illustrates by using the special building fund to do property tax-- or to do projects, we're spending hundreds of thousands of dollars less than we would if we were trying to do a bond issue. If we were doing a bond issue, we'd be spending millions in financing cost and instead we're only spending \$20,000.

**FRIESEN:** Thank you, Mr. Grizzle. Any questions from the committee?  
Senator Groene.

**GROENE:** For clarification, I believe the model is based on next year's projections of '19-20 that the Department of Ed came out in-- in January with, that you would normally have had but we-- it's '19-20. The thing you might have noticed is the-- if the Property Tax Credit Fund was used. That's '17-18 and that's generous because actually the

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Property Tax Credit keeps going down to rural areas because it's transferring to urban areas because that's where the growth is. So actually, if there's a distortion, it's a distortion against the model. But--

**STEPHEN GRIZZLE:** OK.

**GROENE:** --I believe that we-- it's '19-20 numbers what you would have-- what will happen next year for you guys if we don't do anything, that's the comparison.

**STEPHEN GRIZZLE:** OK, I-- I haven't looked-- seen that yet.

**GROENE:** Thank you.

**FRIESEN:** Thank you, Senator Groene. Any other questions from the committee?

**GROENE:** Thanks for your testimony.

**FRIESEN:** Seeing none, thank you for your testimony.

**BARBARA GRIFFITH:** Hello. I am Barbara Griffith, B-a-r-b-a-r-a G-r-i-f-f-i-t-h. I am in support of the new tax bill to reduce property taxes and raise other revenue. I would prefer higher tax for millionaires, but that's a different time. Nebraska Legislature has worked hard in recent years to reduce spending. We need the full budget at this time. Now you must decide how the revenue is to be achieved. Property taxes don't bother me. I don't pay any property taxes. If this bill ultimately lowers property tax-- taxes, then I expect all renters should get reduced rent. I did rent for one year at \$365 a month and I'd like to see rent go down 20 percent if-- if all of the people are going to have less property tax rent. I have promoted taxing soda, sugary drinks, candy, and junk food for over ten years. I'm a grocery store cashier. And believe me, people in most cases spend money, they buy what they want, and they're addicted to those foods. The flavor bombs that are high in salt, fat, and calories, low on fiber and nutrition, reach a bliss point in consumption which leads to risks for high cholesterol, high blood pressure, cardio disease, diabetes, cancer, intestinal issues, obesity, and depression. Please read on your own Consumer Report, health issue, May-June, the truth about sweeteners. Sweeteners are totally changing our biochemistry in the body, our intestines and our intestinal track. I'm 66 years old, 5'6". I've never made-- weighed

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more than 140 pounds, including two pregnancies. Eating a healthy diet and exercising keeps you free from disease. My yearly doctor visits and pills are always less than \$800 a year. Recent polls tell us more people die from a poor diet than smoking. And at the bottom of the page, there was a letter to the editor about smoking, and smoking kills more people than alcohol, AIDS, car crashes, illegal drugs, murders, and suicides combined. So our personal health is a major, major health issue. Over 58 percent of the population is overweight, with 40 percent obese. Taxing these wants make people think twice about spending \$80 to \$100 on wasted calories a week. I-- SNAP benefits enable persons with minimum-wage jobs and financial difficulty to meet their families. We hope that people will make wise choices with their SNAP dollars, but addiction is hard to stop, and if they no longer can buy these foods that are killing them, we won't be contributing to their death or their children's deaths with our own tax dollars. There are-- thank you.

**FRIESEN:** Thank you, Ms. Griffith. Any questions from the committee? Seeing none, thank you.

**BARBARA GRIFFITH:** Thank you.

**FRIESEN:** How many more proponents do we have? OK. Come on forward. Welcome back. We've seen you here before.

**ART NIETFELD:** Yeah, thanks. Hi. My name is Art Nietfeld, N-i-e-t-f-e-l-d. I farm on a-- I farm on the Kansas border 60 miles straight south of Lincoln. I would sure like to thank all these senators for all your hard work on this and allowing us to testify today. I can see all of you do work really hard. I strongly voice my support of LB289 and AM1381 simply because they give us much-needed property tax relief and distribute at least some of the money to all school districts, including rural districts. And to answer Senator Brooks's and Murman's questions, I'm sure all farmers would like to have more property tax relief, but-- and everybody would, but at least this will sure help a lot. We farmers have been paying most of the budgets of rural school districts and counties for years, then, when we go to town, we have to pay state and city sales tax, plus income tax, yet we don't-- do not seem to get much of it back, especially for our schools. We farmers cannot keep supporting our own schools and counties and then be required to help cities too. The average farmer probably pays five times as much sales tax as the average city person due to the things he needs to buy for the farm, and farmers probably

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pay 10 to 100 times as much property tax as the average city or town person. My Nebraska property taxes have more than doubled in the last nine years. My-- my Nebraska property taxes take roughly one half of my net income from crop land in an average year and roughly all of my income on pasture. I am-- and I'm somewhat lucky because I live in a lower priced land area, away from a larger town or city, than some farmers. Farmers near towns and cities pay even higher property taxes. Plus, for me, living near Kansas, approximately one third of my land is in Kansas where the tax rate is roughly one third as high as Nebraska taxes. The average farmer probably pays ten or more times as much to support our schools and counties as the-- as the average town or city person. And with these constant property taxes increases and lower commodity prices, we just can't take it anymore. Anyone who pays taxes to the state should get at least some benefit from it, and LB289 and AM1381 do that.

**FRIESEN:** You're going to wrap--

**ART NIETFELD:** So I strongly support them.

**FRIESEN:** Thank you for wrapping up quickly.

**ART NIETFELD:** OK.

**FRIESEN:** Any questions from the committee? I hate to cut you off too short, but we're--

**ART NIETFELD:** No, that's--

**FRIESEN:** --we're running short-- short.

**ART NIETFELD:** Right.

**FRIESEN:** OK. I see no questions. Thank you for your testimony.

**ART NIETFELD:** Thanks to all you guys. I sure appreciate all your work.

**PANSING BROOKS:** Thank you for coming.

**FRIESEN:** Any other proponents? Seeing none, I don't think there are any in the overflow room either, the way it sounded, so we will now switch to opponents. How many-- how many people here want to testify in a neutral capacity? We may break in the middle here somewheres and

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let some neutral people testify. Let's go about ten people, opponents,  
maybe and--

\_\_\_\_\_ : [INAUDIBLE]

**FRIESEN:** Five and five? Sorry. We'll go five and five.

**DOUGLAS KINDIG:** Chairperson, committee members, thank you for having me here today. I'm Mayor Douglas Kindig, K-i-n-d-i-g, mayor of the city of La Vista, speaking on behalf of the United Cities of Sarpy County. Obviously, we-- you've heard me before. We're a collective group of 90,000 individuals representing-- out of Sarpy County. I've heard a lot of discussion today on cutting taxes and how to increase state aid to school. I want to thank Senator Crawford for bringing up the municipalities. I hope my testimony will help highlight some of the things that this bill will do in my community. La Vista is home to one of the largest employers in the state, PayPal. We've got one of the premier hotel/conference centers that draws hundreds of thousands of people from out of state every year. We've got a data center for Yahoo that's-- that's made a tremendous effort into our city. I was a little surprised today that La Vista is not a large city. So that you can understand my testimony today, I guess La Vista is a small city that is up against the cap. As we have indicated on numerous occasions, we understand the resolve to address property tax issues, especially as they pertain to farmers and ranchers. We believe, however, that the provisions of AM1381 are detrimental to the municipalities. If LB289 and AM1381 is made law, La Vista would lose an estimated \$560,000 in property taxes for our budget in 2020, which equates to 3.5 percent of property tax levy. We are currently at our maximum limit. Over the past 20 years, the Legislature has implemented budget lids and levy limits, restricted revenue growth, placed restrictions on our municipal occupation taxes, and eliminated all of our state aid. As a result, our options to make up these significant-- significant loss of revenues are extremely limited. As a prospering city, we have service demands that grow in relation to our population and increasingly sophisticated public infrastructure. We are intentional in our long-range planning. We try to hold our property tax base at a level that the employees are happy with the services that they receive. That was highlighted during our National Citizen Survey, which we do on a three-year basis to gauge our citizens. Sixty nine percent of the respondents indicated support for the overall direction the city is taking. Each year, we have faced piecemeal legislative attempts to further constrain our ability to provide

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essential services and maintain our-- and construct public infrastructure. We acknowledge that over time the public funding mechanism in Nebraska has been skewed heavily towards property taxes. While we support the general effort of the legislature to reform the system of taxation, we believe that any such effort should be comprehensive. We have reached out to senators, we have reached out to the Governor many times to have him look at our city-- I'll help stop, Senator. Thank you.

**FRIESEN:** Thank you, Mayor Kindig. Are there any questions from the committee? Senator Groene.

**GROENE:** You-- you didn't explain-- if the hold harmless is done on the levy rate, how are you harmed by this legislation?

**DOUGLAS KINDIG:** So in Sarpy County, our assessor values everything at a 96 percent. So we will go down from that 96-- that figure I gave you of \$560,000 is the difference between 96 percent and 90 percent, Senator.

**GROENE:** But as Senator Linehan said in her testimony, we-- the committee would look at held harmless on the levy limits. In that case you would not be-- you would have no problem. Your levy would just go up.

**DOUGLAS KINDIG:** Yeah, and, if you don't mind me responding to that, sir, it was--

**GROENE:** Question, it was a question.

**DOUGLAS KINDIG:** We no longer receive any state aid. It's been gone from La Vista since I've been mayor for 14 years. The promise was made years ago that they were going to help supplement our budget when they put the levy-- or a lid on what we could do for tax levy. I heard Senator Linehan talk about building the trust with the schools again. The city would have those same concerns. And as I listened to Senator Linehan, I've read this bill, and I listened to your testimony today, I don't know where you're going to get the money to fund the schools. I've heard senators mention you're counting on the \$51 million, you're counting on our revenues to hold true. So I think what you're doing for the schools is-- what's leftover in the pot for the cities at all? Are you going to raise the sales tax another quarter point, a half point? Those would be things that for the city to have any trust, we--

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**GROENE:** But there is nothing in the pot right now for the cities.

**DOUGLAS KINDIG:** There's nothing in the pot.

**GROENE:** So there-- constitutionally, there should be nothing in the pot for the cities. It's-- you are an individual entity.

**DOUGLAS KINDIG:** If you leave the mill-- the 96 percent that Sarpy County changes-- or charges today, sir, I can take care of my city at the local level.

**GROENE:** If we give you the levy lid, you can take care of your city. Just raise your levy.

**DOUGLAS KINDIG:** Our levy is up to the lid.

**GROENE:** If we get rid of the lid and give a hold harmless, you're held harmless. Is that not right?

**DOUGLAS KINDIG:** If you want to take away the lid to the city, that's exactly what would happen.

**GROENE:** That-- that's what--

**DOUGLAS KINDIG:** Yes, sir.

**GROENE:** And by the way, we are a small state. You are a big city in the state of Nebraska.

**DOUGLAS KINDIG:** Thank you, sir.

**GROENE:** You're the 12th largest.

**DOUGLAS KINDIG:** No.

**GROENE:** Thank you.

**DOUGLAS KINDIG:** Thank you.

**FRIESEN:** Thank you, Senator Groene. Any other questions from the committee? Seeing none--

**PANSING BROOKS:** Thank you.

**FRIESEN:** --thank you for your testimony

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**DOUGLAS KINDIG:** Thank you.

**ANDY RIKLI:** Good afternoon, Senators. My name is Andy Rikli; last name is spelled R-i-k-l-i. I am the superintendent of the Papillion La Vista Community Schools. I represent the fourth largest public school district in the state of Nebraska with 12,000 students across 20 buildings. We are a fast-growing school district with between 200 and 300 students being added every single year. In my capacity today, I also serve as president of GNSA, which represents 24 public schools and approximately 70 percent of the public school students which attend public schools in the great state of Nebraska. I would like to thank the committee for taking the time to examine an incredibly difficult and important topic. There are many aspects to LB289 that we find problematic. Devaluing equalization is chief among them. Papillion La Vista Community Schools will lose up to \$3 million per year and next year alone if LB289 passes. The Nebraska Legislature has always recognized equalization as a key component of the state aid formula. Equalization at its core exists to form two purposes, one, to support schools whose financial needs are greater than their local available resources. Equalization further exist to support school districts whose needs are greater than the typical school districts. We oppose LB289 because it decouples the connection between state support and local needs. We're also concerned about the provisions that tie school spending to the Consumer Price Index, which was raised earlier by a committee member. Staff salaries and benefits typically constitute almost 90 percent of a public school district's budget. These cost drivers do not follow CPI price schedules such as food, fuel, and housing costs. It would be extremely difficult for a growing public school district such as ours and those in GNSA to fall within the parameters of CPI. We understand Senator Linehan's point that the CPI does matter to taxpayers, of course it does, but we represent taxpayers who voluntarily supported a \$110 million dollar bond issuance with 67 percent of the vote. This is not atypical. Districts across the state, including Omaha, Grand Island, Millard, Bellevue, Elkhorn, Gretna, and Westside have passed large bond initiatives as well. Stated differently, taxpayers in Nebraska's largest population centers have voluntarily supported property tax increases at the ballot box to support public education. We do not believe spending is the issue. In Papillion La Vista Community Schools, we're adding in essence a new elementary building every two years in terms of population growth. Our spending has averaged 3.5 percent over the last ten years. Lastly, I'd like to conclude with student needs. We are not

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against smaller school districts receiving state aid, provided it doesn't come at the cost of equalization. Rural school districts certainly have their own challenges and I certainly understand, coming up from a farm family myself, that ag producers need help. But the majority of Nebraska's most vulnerable children live in our largest, most equalized districts. This includes children living in poverty, children who do not understand the English language, and those who are the most profoundly disabled. It seems reasonable that the state equalization formula would not only funnel more money to the larger districts but, more importantly, to those school districts where the needs are the most profound.

**FRIESEN:** Could you please wrap up?

**ANDY RIKLI:** Thank you.

**FRIESEN:** Thank you. I'm trying to be pretty tight with the light. We have a lot of people

**ANDY RIKLI:** I understand. Thank you, Senator.

**FRIESEN:** Any questions from the committee? Senator Bolz.

**BOLZ:** Thank you. I just-- I want to ask a follow-up question about the impact of the CPI, and you-- I had those questions with Senator Linehan and you referenced the school's budgets not being in line necessarily with the CPI. Could you give me some specific examples? What was your health insurance? How did you handle it? How would you handle something like this? Could you just describe?

**ANDY RIKLI:** Yeah, it-- It's a great question, Senator. So most school districts in Nebraska, with the exception of a few notable ones, are participants in the Educators Health Alliance Blue Cross Blue Shield. That insurance over the last ten years has averaged just under 5 percent, so it's a manageable but it's-- it's-- it's certainly a large number. The biggest driver on school district budgets is staff salaries. For a district of our size, for example, if we were to provide a-- what I would consider a modest pay increase of 3 to 3.5 percent total package to our teachers, that would constitute a \$3.5 million increase on our budget alone. So even if fuel costs, textbook costs, computer costs stayed exactly the same, just to keep up with health insurance is to your point, senator, and again, a modest pay increase would be several million dollars' impact on our budget.

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**BOLZ:** Thank you.

**FRIESEN:** Thank you, Senator Bolz. Senator Kolowski.

**KOLOWSKI:** Thank you very much. Dr. Rikli, how many teachers did you add, for total staff, did you add to your school this year?

**ANDY RIKLI:** Yeah, so we have just over 920 teachers total. We have about 2,000 total staff members, including classified staff. In a given year, we will typically add between 20 and 30 teachers, which would be new teachers, not replacement teachers who are retiring or moving on to other school districts.

**KOLOWSKI:** Thank you.

**ANDY RIKLI:** Thank you.

**FRIESEN:** Thank you, Senator Kolowski. Senator Groene.

**GROENE:** You did read the bill?

**ANDY RIKLI:** I did read the bill.

**GROENE:** Student growth-- growth is a factor also.

**ANDY RIKLI:** I understand.

**GROENE:** So you're not limited just by CPI.

**ANDY RIKLI:** Correct.

**GROENE:** Have you looked at the last 20-year history of the-- of the Legislature funding public education?

**ANDY RIKLI:** I have, but I do not have those numbers at my fingertips, Senator.

**GROENE:** We continue to adjust the 2.5 percent, which was an arbitrary number. I did the research. Somebody wanted 3, somebody wanted 1.56, and 2.5 has no rational reason for being in the formula. Have you noticed that actually the CPI is probably better than what we've done the last 20 years as we've adjusted that 2.5 percent?

**ANDY RIKLI:** I don't have the answer to that in front of me, Senator.

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**GROENE:** I do. Thank you.

**ANDY RIKLI:** Thank you.

**GROENE:** Appreciate it.

**FRIESEN:** Thank you, Senator Groene. Senator McCollister.

**McCOLLISTER:** Yeah. Thank you, Vice Chair Friesen. You indicated, Doctor, that you lost \$3 million if this were to be enacted. Looking at the proposed formula and the TEEOSA formula, can you tell us how that \$3 million came to be?

**ANDY RIKLI:** Yeah, it's a really good question, Senator McCollister. So many of you probably saw the article in the World-Herald this morning which showed some of the increases to state aid to several large urban districts. It's a little bit misleading, and I-- and I want to assume best intentions, but most public school districts receive their revenue in one of two ways. They're either getting property taxes or they're getting some type of state aid, typically equalization aid, special education aid. Well, state aid may be going up. So for example, it showed, I believe, in-- for the case of Papillion La Vista, our state aid was going up \$5.5 million. But because of how the other levers within the proposed bill would operate, it would drive down our ability to access our local property tax base. So even though the \$5.5 million is going up, we would actually lose an equal or greater amount because of our decreased ability to access our property tax. That would be very typical of other districts that are like us that are equalized.

**McCOLLISTER:** Thank you very much.

**ANDY RIKLI:** Thank you.

**FRIESEN:** Thank you, Senator McCollister. Any other questions from the committee? Seeing-- Senator Murman.

**MURMAN:** Thanks a lot for your testimony, and I appreciate you trying to limit spending as much as you have recently. I just want to ask you a question. Farmers, many farmers pay for private health insurance, so their costs have skyrocketed at the same time property taxes have skyrocketed in recent years. They're-- we-- we are in a crisis situation, but we have managed so far. Do you have any suggestions on

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how we could improve this situation differently than what we're attempting to do right now?

**ANDY RIKLI:** Yeah, it's-- it's an interesting question, Senator, and the short answer is I don't have a great answer. I can give you a bit of context and that is I'm a small-town Nebraskan. I grew up on a farm in Auburn, Nebraska. I've got several members of my family that are property tax owners in-- in Hall County, Nemaha County. I hear from them the challenges that ag producers are facing every single day. I get it, I really do, but I have yet to find a farmer, an ag producer that wants property tax relief to come at the expense of high-quality public schools. That's not answering your question and I understand that. Again, I-- I'll go back to what I said in my testimony. I think adding some type of foundational aid to provide some relief makes sense. I would just urge the committee not to do it on the backs of equalized districts where the vast majority of our student needs are across this great state.

**MURMAN:** Thank you.

**ANDY RIKLI:** Thank you.

**FRIESEN:** Thank you, Senator Murman. Senator Briese.

**BRIESE:** Thank you, Chairman Friesen. Thank you for your testimony. And following up on Senator Groene's question earlier, so for the last ten years or so, or several years, anyway, you've dealt with a budget limitation growth of 1.5 to 2.5 percent, correct? But you've indicated your spending has increased at about 3.5 percent. How did you accomplish that?

**ANDY RIKLI:** Yeah, so some of that's occurring because of the nature of our-- our district growth. So for example, much of our spending is-- is driven by bonds. So in a fast-growing school district, for example, there are exceptions to both the budget, and there are exceptions to the levy, as-- as this committee is well aware. So a school district, even though the Legislature has a cap on spending, as with many things, there are caveats, there are asterisks, so in a fast-growing district where you're building buildings, for example, that there would be "work-arounds," for lack of a better way of describing it, Senator.

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**BRIESE:** Isn't it true that there's-- those "work-arounds" are still present even if this bill is adopted?

**ANDY RIKLI:** In some cases, yes. In other cases, we have concerns about whether they would be there to protect the interests of a growing district.

**BRIESE:** It looks to me like most of them are there yet. OK. Thank you.

**ANDY RIKLI:** Thank you, Senator.

**FRIESEN:** Thank you, Senator Briese. Any other questions from the committee? Seeing none--

**ANDY RIKLI:** Thank you.

**FRIESEN:** --thank you, Mr. Rikli, for your testimony. Welcome.

**MATT INNIS:** Welcome. Madam Chairwoman, Senators, my name is Matt Innis, M-a-t-t I-n-n-i-s. I'm an independent electrical and cabling contractor. My life's work has centered on helping people keep their lights on in their homes and their businesses. I have seen over my 26 years many families that don't have a lot of money struggle to do the basic maintenance on their homes. LB289 would add to that. It would continue the struggles. Your bill proposes to impose a new tax on plumbing and heating and air services. For Nebraskans, that would be up to 8.25 percent sales tax on basic necessities. This will undermine the affordability with housing and homeownership. It will also impact Nebraska's ability to recruit new companies looking at where to locate major operations. You're also one step away from taxing electrical work and other services necessary to building affordable housing and commercial real estate. When your contractor services have a 6.25 state sales tax plus local tax on them, it will be a considerable factor. What does this boil down to? Jobs. When services get more expensive, folks are going to cut back on hiring guys like me. Give you a quick example, I've had families that have bought homes, get into a home, barely afford it. They have problems. What happens? They call me, look at it. The homeowner before decided to cheap out, do it himself. They have a serious issue. All you're going to do is increase problems like that. A contract to inspect an HVAC system can run about \$150 in your family budget just to look at your system. That will now cost over \$160. Refrigerant leak in the middle of July or August in Nebraska, you're looking at \$1,500 to repair. With this, you're over \$1,600 now. HVAC and plumbing are just a couple of pieces of this

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massive tax increase this committee is considering. It adds up for families struggling to make ends meet. Your tax plan will hurt working Nebraskans and that's why I'm asking you to change your approaches, control spending, do tax relief within the budget. If you don't, we are just going to have-- have a bunch of high taxes.

**KOLTERMAN:** Thank you, Mr. Innis. Are there any questions? Senator Groene.

**GROENE:** I was caught in the flood. One of my properties [INAUDIBLE] the furnace, got in the crawl space. Two thousand dollars, I'm going to pay \$125 tax. That's one time. I will get a \$400 dollar tax, every year, reduction in my property taxes. You think most homeowners would take that?

**MATT INNIS:** I'm thinking that most homeowners don't believe that you guys will live within your means. I'm thinking most homeowners sit there and look at some of the small houses that aren't going to get much tax relief, whose houses may not be overtaxed right now, maybe not like you and I. And then they sit there and they get a bill like that and that hurts them. They don't budget. I mean, not only are they going to have that bill of fixing their air conditioning, but now they have another tax on top of it. How many people do you think in Nebraska are budgeting for failure of their HVAC system or their plumbing? It just happens

**KOLTERMAN:** Thank you, Mr. Innis. Any other questions? Thank you for your testimony.

**JOE MURRAY:** Dear members of the committees, my name is Joe Murray. You spell that J-o-e M-u-r-r-a-y. I thank all of you for your hard work you've been putting in to try and solve the problem of assessing property taxes. There are several things in this bill that take us in the right direction, but I cannot support it without changes. These are the things I like. It lowers valuation on all real property by 10 percent. The levy limit on schools is reduced 10 percent. In general, it makes school funding more equitable between districts and it sets a cap on school spending at CPI plus growth. A cap is necessary, but it must include all government subdivisions to be effective. According to a report by the Legislative Fiscal Office from August 2018, overall spending from 1997 to 2017 increased by 4.9 percent per year; K-12 education, 4.8 percent; counties, 5.3 percent; cities, 4.2 percent; and all the other subdivisions by 5.9 percent. Without the restraint

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on these other subdivisions, we cannot be assured that spending and property taxes can be kept in check. It also gives the loopholes to get around the cap on school spending through the use of interlocal agreements and JPAs. Here in Lincoln, where they love taxing and spending, there was a proposal last year to have a JPA with the city and LPS in the name of school safety. A spending cap needs to be inclusive to all government subdivisions, it needs to be based on actual spending increases to control valuation spikes, and needs to be in the constitution rather than just a statute. Past attempts with similar bills failed to stop the growth of property taxes because of a lack of airtight caps that can only be assured by being in the constitution. It's a different bill, but in addition, to avoid excessive valuation increases, I would like the Legislature to pass LB483. It needs to be passed because it changes farmland valuation from market value to production value. It is revenue neutral but will keep values more steady over time. State spending adjusted for inflation and population grew an average 7 percent per year for the past 50 years. That was never sustainable and it's not going to be affordable going forward. I applaud Governor Ricketts and this body for slowing the rate of growth over the past few years. Raising taxes to allow more government growth will not lead to stronger economy. Reducing property taxes will help. I can live with my property tax credit being taken away if it leads to sustainable greater property tax reductions. Governor Ricketts suggests \$123 million additional funds can be allocated to the Property Tax Relief Fund. I would also add that since 1980, according to Nebraska Department of Education, we have increased per-pupil spending by 476. The CPI increased by just 206 percent. We can't have a fair allocation to districts of state aid without a big increase in state-- as big an increase in state aid and taxes as currently proposed. Changing the current bill to add tighter spending controls that apply to all government subdivisions embedded in the constitution, combined with less reliance on increased taxes and spending, gives real sustainable property tax relief. Thank you.

**KOLTERMAN:** Thank you, Mr. Murray. Are there any questions? Again, thank you for your testimony. We'll take one more in the negative and then we'll move to neutral. I might request that if you've testified, you might want to move from the other room where we have TVs set up so that people can come in from that room to testify as well so everybody has an opportunity. We'd sure appreciate that. We know we're limited on space and we appreciate your cooperation. Thank you. Go ahead, sir.

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**BLAINE WILCOXSON:** Committee members, my name is Blaine Wilcoxson, B-l-a-i-n-e W-i-l-c-o-x-s-o-n. I'm division president of the Waldinger Corporation. My address is 8802 South 121st Street in La Vista, Nebraska. I am here today testifying on behalf of the Mechanical Contractors Association of Omaha, the Plumbers, Heating, and Cooling Contractors Association of Nebraska, the Associated Builders and Contractors Association, the Cornhusker Chapter, and the Associated General Contractors, Nebraska Building Chapter. We are in opposition to one subsection of AM1381, specifically the section that adds a new sales tax to plumbing, heating, and air conditioning services, which can be found on page 22, lines 3 and 4. This is an ill-written and ill-thought amendment lacking definitions of terms and realistic implementation dates, among many other things. Plumbing and HVAC services are not a luxury. In fact, plumbing is a life-safety issue. Basic sanitation and drinking water are imperative to Nebraskans' health. These are not luxury services or services that are nice to have. Building codes do require these services. These plumbing and HVAC services need to be affordable to Nebraska households and are crucial to the profitability of Nebraska businesses. Nebraska's plumbers, pipefitters, and HVAC professionals pride themselves on doing quality work at affordable cost. This proposed tax on plumbing, heating, and air conditioning services will make it impossible to do without raising cost to our customers. This price increase due to the sales tax will have a detrimental effect on hardworking Nebraska families, businesses, and private development. The proposed sales tax on plumbing and HVAC services will make it even more expensive to renovate or repair homes. In fact, after the catastrophic-- catastrophic flooding, many Nebraskans have been displaced, living with relatives or living in shelters until their homes can be fixed. This tax will add additional financial hardship to them. Furthermore, we've already been down this path before and, frankly, it was a disaster. When construction services were taxed in the early 2000s, it was a nightmare for the Department of Revenue and for many companies. My industry colleague will address this in testimony shortly. Please do not let history repeat itself and make the same mistake again. I urge you to oppose just this section of AM1381 which is a tax on plumbing and HVAC services. Thank you for your consideration.

**KOLTERMAN:** Thank you very much, Mr. Wilcoxson. Any questions from the committee?

**BRIESE:** Thank you, Chairman Kolterman.

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**KOLTERMAN:** Senator Briese.

**BRIESE:** Thank you, Chairman Kolterman. Thank you for your testimony. In your industry, can you give me a breakdown as to what percent of the work would be considered repair and maintenance versus installation, new installation, things of that sort?

**BLAINE WILCOXSON:** I don't have industry numbers. I can tell you within my company that it's roughly 20 percent of our work is repair and maintenance.

**BRIESE:** OK. Thank you.

**KOLTERMAN:** Any additional questions? Seeing none, thank you very much.

**BLAINE WILCOXSON:** Thank you.

**KOLTERMAN:** Now we'll go to neutral. Welcome. Thank you for coming.

**CRAIG BOLZ:** My name is Craig Bolz, C-r-a-i-g B-o-l-z. I'm here to testify neutral today. I'm a farmer from east Lincoln, from Palmyra, Nebraska. The simple fact that it doesn't-- as I've testified before, it doesn't go far enough. We need 2 percent sales tax increase and it all needs to go around the back door so the schools can't touch it, just like it's designed. First of all, I want to thank the-- the four or five senators that worked really hard on this and that really understand the problem. And I've got the answer to how to get this passed at the end. So when the red light comes on, I want to say one more thing. First of all, every time my taxes go up, my landowner's taxes go up \$3. They wanted 20 percent-- not 20 percent. They want a \$20 or \$25 increase in their cash rent. They can't do math. They go-- it's just an excuse. I'm-- I'm tired of it. I can't do-- in fact, pure, plain, and simple, I'm 65 years old and I'm not giving it to them anymore. I'm done. I'm tired. I'm mentally exhausted. I'm out of here. It's not fair. I cannot keep paying the first 20 bushel of my production for real estate taxes, whether I rent the ground or whether I own the ground. The guys at Hamilton County probably pay the first 35 bushels in the-- on their irrigated ground. Thirty-five bushel they give just for the right, the privilege to go out and put the planter in the ground. Right now, today, I should be planting corn, right now. But this is way more important than planting corn, because if we don't get something done here, there ain't no reason to plant any more corn. The-- I-- when we give-- when I give 20 bushel an acre and the guys in Missouri and South Dakota, North Dakota, give the first two bushel an

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acre, that's not a level playing field. I can't compete with them. One of the big things that needs fixed, and I've said this three or four times, is that 1 percent of the people are setting the valuation for 99 percent of the people. My land isn't for sale. My land was my grandfather's land. It's not for sale. He gave \$125 an acre for it. And you got people down there that are running four or five huge, successful businesses that are buying all the ground for \$8,000 or \$10,000 an acre, and you're valuing my land at that, it's not fair. That needs fixed, the way you do the valuation. OK. How do we solve the problem? The last time that I got the facts and figures, and I'm-- I may be wrong, the computer, and this is the only computer I have, it's 65 years old, but we were about 49 percent on real estate taxes, we were at 17 percent on sales tax, we were at 33 percent on income tax. Of the income tax, 4 percent of that was corporate income tax. Either cut the corporate income tax in half or do away with it completely, just do away with the 4 percent of the corporate income tax in the state of Nebraska. I was at a town hall meeting in Beatrice and Mr. Ricketts said--

\_\_\_\_\_ : [INAUDIBLE]

**CRAIG BOLZ:** --just let me finish because you've got to hear the answer. He said, we don't have the votes, there's nothing we can do, we don't have the Omaha and Lincoln senators. You cut the corporate income tax to zero and every senator-- you don't want to hear what I have to say. Every senator--

**KOLTERMAN:** Yeah, but your time is up.

**CRAIG BOLZ:** Every senator will have to vote for this bill.

**KOLTERMAN:** Thank you.

**CRAIG BOLZ:** Thank you very much, guys.

**KOLTERMAN:** Any questions? We've got some questions for you.

**CRAIG BOLZ:** Oh, excuse me. Sorry.

**KOLTERMAN:** Thank you.

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**BRIESE:** Thank you, Chairman Kolterman. Thank you for your testimony. I really appreciate that. You said earlier, use the back door, don't let the schools get ahold. Now what did you mean?

**CRAIG BOLZ:** Well, that this is going to go around-- that she was asking this question about that-- that all of this is going to go to ag and that-- and that it's not going to get-- that it's not going to be put into the general budget correctly so that-- so that the schools don't get ahold of it. Is that correct?

**BRIESE:** You were thinking go to the Property Tax Credit Fund?

**CRAIG BOLZ:** Yes.

**BRIESE:** OK. Very good.

**CRAIG BOLZ:** Yes. Yes.

**BRIESE:** Thank you.

**CRAIG BOLZ:** Yes.

**BRIESE:** Agree.

**CRAIG BOLZ:** OK? Any other questions?

**KOLTERMAN:** Additional--

**CRAIG BOLZ:** Yes.

**KOLTERMAN:** Senator Brewer.

**BREWER:** First off, thank you for the testimony. I know that it can be a little bit challenging, especially today.

**CRAIG BOLZ:** Yeah.

**BREWER:** But if I could bring--

**CRAIG BOLZ:** It's not-- it's not fun.

**BREWER:** If I could bring many from my district here, what you just said would be reflected by them, you know, the-- the crop issues you-- you gave a great example with. With the livestock issues, though, you know, this year we're looking at losing 15-18 percent of our calf crop. That's the profit-- so they're going to work for the next year

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for nothing, and they're not going to have what they need to pay when the time comes, their property taxes. And-- and we were close to losing a lot of them over the last few years, and I think this may be the straw that breaks the camel's back. So I understand that you may be one of a few that comes in and voices these concerns, but what you said is being reflected. They just can't get here to testify.

**CRAIG BOLZ:** Well-- well, sure, they-- I will say one more thing. I don't have one-one millionth of the problems that the farmers at Columbus and Fremont and Hamburg and Pacific Junction have. I don't have no problems. Just because my corn planter ain't running today, I don't have no problems. These guys got problems. And if you guys want to be honest about it, this is going to have a long tail. This is going to have a long tail on revenue coming into the state of Nebraska the next five years. And good senators can think a long ways ahead and plan ahead.

**KOLTERMAN:** Thank you for your testimony.

**CRAIG BOLZ:** Any other questions? Thank you very much, and thank you guys. Mr. Briese and Groene and Friesen, thank you very much for your hard work. Thank you.

**SARAH CURRY:** My name is Sarah Curry, S-a-r-a-h C-u-r-r-y, and I'm the policy director for the Platte Institute and I'm here to testify in the neutral capacity. The Platte Institute supports the education funding components of this amendment which lower property taxes through valuation and levy rate changes. Polling has shown that Nebraskans strongly support additional property tax limitations such as the ones included in this amendment. And while we agree on the education and property tax components, we disagree with how the revenue is generated. Lifelong Nebraskans will remember the many times the state has increased the sales tax to offset high property tax but it has never materialized for lasting reform. In addition, the increase in cigarette tax is a poor revenue source to replace funding for something as important as our schools. There is no need to increase this tax when sales taxes have been proven as a more stable source of revenue for government. Failing to scale back sales tax exemptions in the current proposal creates a heavy dependence on tax rate increases, which is not what our state needs. There's no need for the state to increase its sales tax rate when there are millions of dollars left on the table in current sales tax exemptions. Nebraska only takes one in three consumer purchases today. We understand this

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issue generates a lot-- a lot of opposition, but eliminating the exemptions is the most stable, fairest, and least economically harmful way to raise enough revenue to significantly reduce property taxes. It is also the recommendation of the Tax Foundation and a prudent method of tax reform in other states. Under current law, motor vehicle cleaning is subject to sales tax but motor vehicle repair is not. The installation of landscaping materials and live plants is subject to sales tax, but other lawn care and landscaping services are not. This is not only confusing to consumers but is a burden for businesses that provide both services and must charge customers differently. It's also just bad tax policy. If the motor vehicle repair exemption alone was repealed, an additional \$18 million dollars could be generated. Personal care services are also a concern. In totality, there is \$11 million in exemptions for personal care services. The Revenue Committee has already stated it doesn't want to tax haircuts, but why not other services? While not ideal, the state could only exclude haircuts, which would still be better than increasing the state sales tax rate. And finally, an increase in our state sales tax rate will change our national ranking for the worse. I asked Tax Foundation to run a hypothetical sales tax ranking and under our current system, we're the 27th highest. With this increase, we would jump to the 17th highest which, keep this in mind, that would put us less than 2 cents away from the state of Tennessee which is the highest sales tax rate in the nation. It's also important to consider because Nebraska is already ranked high in other taxes, so this would impact our state business tax climate index ranking. Our property tax rank would decrease slightly, but the sales tax rank would increase us for an overall tax increase-- or increase in the rate. And I'll stop there. I just want to point, I included charts in your testimony so you can reference what I was saying in testimony.

**FRIESEN:** Thank you, Ms. Curry. Any questions from the committee?  
Seeing none--

**SARAH CURRY:** Thank you.

**FRIESEN:** --thank you for your testimony.

**BRYCE WILSON:** Good evening. I'm Bryce Wilson, B-r-y-c-e W-i-l-s-o-n, the administrator of finance and organizational services for the Department of Education. I am just here to see if there's any

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questions that I can help answer on the TEEOSA portion or school finance portion of the bill.

**FRIESEN:** Thank you, Mr. Wilson. Are there questions from the committee? Senator Briese.

**BRIESE:** Mr. Chairman Friesen. Thank you for being here and clarifying some of these-- clarifying some of these things. Educational community expresses concern about restrictions in this bill on their ability to access property taxes, restrictions in this bill as far as the budget limitations. But the exclusions, the exceptions to the levy limitation, the exclusions, the exceptions to the budget limitations, they're essentially intact yet, correct?

**BRYCE WILSON:** The-- the same budget and levy exclusions, we're not changing any of those. It would just be a shift down in what the top end is before you hit those exceptions, yes.

**BRIESE:** And the ability to access a public vote to override some of these things still intact?

**BRYCE WILSON:** Yes, none of that is being changed, correct.

**BRIESE:** Thank you.

**FRIESEN:** Thank you, Senator Briese. Any other questions from the committee? Senator Groene.

**GROENE:** You work just-- Department of Ed just cooperates with the Legislature, has for years, save cost and do research for your Education Committee, which I'm the Chair. What we've done in the model, besides the averaging adjustment, have we affected the needs?

**BRYCE WILSON:** The CPI, and using the CPI instead of the basic allowable growth rate to grow the two-year-old spending information, would have some effect on needs. It's hard to say exactly what because you mentioned earlier we-- the Legislature has changed the basic allowable growth rate over the years from anywhere from 0 to 2.5 percent, so where CPI falls in there--

**GROENE:** And in the past, the Legislature just arbitrarily has changed the number not related to the cost of living or any-- anything. It's

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gone from a 1.5 to 2.5 and in between there. It went as low as 1 once, didn't-- did it not?

**BRYCE WILSON:** To zero, it went-- it went to half a percent one year--

**GROENE:** It went-- it was zero.

**BRYCE WILSON:** --and the following year it was zero percent, so--

**GROENE:** So an administrator sitting and looking at a zero versus the CPI, it's not a very smart thing to do if you were looking for more money, but that-- I don't need an opinion. But otherwise, the needs are there. If we go from-- this is another amendment to go to 6 cents on the-- on the max levy, that would give them more taxing authority, would it not, versus 5 cents that they have now--

**BRYCE WILSON:** Well--

**GROENE:** --because if you go down 10 percent, well--

**BRYCE WILSON:** It would give them more over the local formula contribution--

**GROENE:** Yes.

**BRYCE WILSON:** --or less a local effort rate. It wouldn't give them more taxing authority but compared--

**GROENE:** Well, if you have a million dollars and you got 4 cents, you got \$50,000. If it goes to nine-- \$900,000--

**BRYCE WILSON:** Yeah, it's--

**GROENE:** We-- ten-- take it times 6 cents, that's \$54,000. I-- I would--

**BRYCE WILSON:** Yes, the--

**GROENE:** So any complaint which I heard here that-- that they're losing taxing authority really isn't true, is it?

**BRYCE WILSON:** Well, you-- what you're speaking specifically to is that the-- with the valuation decrease on this, adding an extra cent to the

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levy amount over their local formula contribution would make up for that 10 percent loss in valuation.

**GROENE:** Ten plus.

**BRYCE WILSON:** Yes.

**GROENE:** But so when you hear here that we're taking taxing authority away-- or they lost-- one individual said they lost \$3 million. They really didn't lose \$3 million. It just shifted from the property taxes to state aid, would be more realistic.

**BRYCE WILSON:** For an equalized district, that would be accurate, for the most-- for the most part, yeah.

**GROENE:** So when I hear somebody say I'm an administrator that's in equalized districts, I'm losing funding, that's not true. It's just going to come out of a different pocket.

**BRYCE WILSON:** In an equalized district, they're-- if they-- anything they lose in valuation and taxing authority would essentially be made up because the local effort rate is being lowered in the TEOOSA formula, so it would be made up in equalization aid. And then when valuations decrease 10 percent the following year, that decrease in valuation would also be reflected in TEOOSA and made up through equalization aid.

**GROENE:** One last question, because you took the time to wait. When I heard that 3.5 percent, and then when Senator Briese asked the individual, he started talking about buildings and bonds. When you calculate their increase in spending, that is outside of that because it's--

**BRYCE WILSON:** Correct.

**GROENE:** Yes.

**BRYCE WILSON:** We only-- we take general fund expenditures and those types of projects are primarily in the building fund, any kind of infrastructure type of stuff. There can be pieces to bonds that can be included in the general fund--

**GROENE:** QCPUFs.

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**BRYCE WILSON:** Well, in the general fund, not the QCPUF fund, as-- there's also that too. But pieces of it can be in the general fund if it's for regular education-type stuff in the bond.

**GROENE:** Thank you.

**FRIESEN:** Thank-- you done? Thank you, Senator Groene. Senator Stinner.

**STINNER:** Yeah. How many times in the last 20 years have we fully funded TEEOSA?

**BRYCE WILSON:** Well, that's always kind of a tricky question because the legislation changes. But since I've been here, in ten years, there's one time that we have not tweaked the formula to lower the amount of TEEOSA.

**STINNER:** And why do we tweak the numbers?

**BRYCE WILSON:** Because it doesn't fit in the state's budget would be my--

**STINNER:** OK, and does this new bill take that ability to tweak the formula away so that we can balance the budget?

**BRYCE WILSON:** Well, to your point, you-- your comments are that the property tax credit piece, it may do that for that piece. I would not be-- I would say that you could potentially still change the local effort rate that's used to multi-- to determine the local formula contribution which is same-- similar to what the yield from local effort rate is now where we look at the school's resources. If that was adjusted, that would allow the state, the Legislature over here to change the amount of TEEOSA still, in my understanding. But because the levy as it's written right now is tied to that amount, if you increase the LER to lower the state's commitment to pay for TEEOSA, that would raise the levy rates for school districts because right now they are tied-- it is written to say the local formula contribution plus 5 or 6 cents with the amendment.

**STINNER:** So you've stress tested this up and down to make sure that you can fit those dollars in, or haven't you?

**BRYCE WILSON:** We've modeled out--

**STINNER:** Modeled it out?

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**BRYCE WILSON:** We've modeled out the first year and did some-- some modeling on the second year which is hard to estimate on all the different factors going in there. But you know, I guess I'm comfortable with those two years. I don't know what it's going to do after that.

**STINNER:** OK.

**BRYCE WILSON:** I'm comfortable with the first year. The second year is a lot of assumptions.

**STINNER:** Does putting the CPI in place drive more dollars into schools than is there today under the formula?

**BRYCE WILSON:** If you held this-- if-- if you held the CPI over-- over the long term and it was not adjusted, like the basic allowable growth rate had been, it may. It's hard-- it's hard to say for sure. I don't know. You know, my crystal ball doesn't work all that well, but--

**STINNER:** CPI has been about 2, 2.5, but we could see it go to 4 or 5, 6 percent, couldn't we?

**BRYCE WILSON:** So this bill limits the growth that we grow that two-year-old spending to 2.5 percent at the max.

**STINNER:** OK.

**BRYCE WILSON:** So even if it did go up to 4 percent, that would be held at 2.5. On the resource side, it does not limit it.

**FRIESEN:** Thank you, Senator Stinner. Senator Groene.

**GROENE:** For clarification, we have always funded TEEOSA to its full because of 77-3446. The base limitation may be adjusted annually by the Legislature to reflect changes in the price and services and product used by the schools. So when the Legislature has taken the action to adjust the 2.5 percent, we have funded TEEOSA according to statute, have we not?

**BRYCE WILSON:** That's true. That is accurate. That's a-- that's a good clarification.

**GROENE:** So we have always funded-- fully funded TEEOSA--

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**BRYCE WILSON:** Yes.

**GROENE:** --with the wise thinking of 49 senators to adjust it when the factors merited that they didn't need as much money. That would be true.

**BRYCE WILSON:** Yes.

**GROENE:** It would be true. All right. And then-- well, that's it.

**BRYCE WILSON:** And to be fair, it has-- one year it was actually adjusted up, so--

**GROENE:** Yeah, it was adjusted up. And it's always had a 2.5 percent ceiling since the 2.5 percent [INAUDIBLE]--

**BRYCE WILSON:** The basic allowable growth rate has had a 2 percent ceiling.

**GROENE:** Yeah, and one year they actually went up.

**BRYCE WILSON:** TEEOSA can grow more than that.

**GROENE:** And that statute is still in place so that still could-- it's to Senator Stinner's question. If we had a crisis, that still could be adjusted as it's--

**BRYCE WILSON:** And the-- and the base-- or the local effort rate could also still be adjusted.

**GROENE:** Thank you. Yep. We will always--

**FRIESEN:** Thank you, Senator Groene. Senator Pansing Brooks.

**PANSING BROOKS:** Thank you, Senator Friesen. Thank you for being here today. So can you clarify-- have you been working with the committee? Some of us are from Education and-- and haven't been privy to exactly what's going on, so-- it's not that we weren't privy, but it was mostly happening in Revenue. So was Department of Ed directly involved in-- in creating this, this amendment?

**GROENE:** We work with the Chair of the Education Committee. The policy is that we work through the Chair of the Education Committee for

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modeling, if there's model requests, first, so we worked with the  
Chair of the Education Committee to come up with [INAUDIBLE]

**PANSING BROOKS:** OK, and not Revenue?

**BRYCE WILSON:** Not Revenue.

**PANSING BROOKS:** OK. So I'm interested in the local contribution part  
of-- of the bill. Are you familiar with that? OK, sorry. So I'm  
wondering if you can explain to me how it works.

**BRYCE WILSON:** This has been-- that's been the most common question  
I've had over the last couple days.

**PANSING BROOKS:** OK.

**BRYCE WILSON:** So, yes, so we start out in year one. We are going to  
lower the local effort rate, which is what we multiply the adjusted  
valuation by to come up with a number that essentially represents a  
school district's ability to generate resources locally. That adjusted  
valuation then in year two, so everybody-- essentially it's the same  
as what we're doing now except for the local effort rate is moved from  
\$1 to 90 cents for the first year, for '19-20. For 2021, it's-- it's  
where things start to change a little bit. We do that same calculation  
where we take the adjusted valuation times the local effort rate. The  
adjusted valuations will go down 10 percent in year two, so that's the  
first piece to it, so your valuations are going to be typically a  
little bit lower unless you have significant growth in the district to  
offset that, but still times the 90 cents. Then on the other-- on the  
other side of it, we are also going to look at the prior years' local  
formula contribution, so what we calculated in '19-20, we're going to  
grow that amount by the CPI amount, which in these models was 2.23  
percent for that second year. And then they'd add in the new  
construction growth to that amount to come up with a second dollar  
amount for that school district to look at the local formula  
contribution. We then compare the two. The lower of the two becomes  
their local formula contribution. So--

**PANSING BROOKS:** Gosh, how easy. [LAUGHTER] Sorry.

**BRYCE WILSON:** It's a-- yeah.

**PANSING BROOKS:** So-- so you just mentioned that unless a-- so if a  
school district has significant growth, then what happens? Or if the

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school-- if the state aid goes down, what's going to happen if it  
doesn't quite fit in that--

**BRYCE WILSON:** So--

**PANSING BROOKS:** --perfect realm of--

**BRYCE WILSON:** So--

**PANSING BROOKS:** --whatever you just described?

**BRYCE WILSON:** Well, I guess everything fits into that realm.

**PANSING BROOKS:** Does it?

**BRYCE WILSON:** But if a school district-- so say a school district had  
10 percent valuation growth, right?

**PANSING BROOKS:** Yes.

**BRYCE WILSON:** But the CPI was only 2.28, 3 percent. We would take  
their prior year amount. We'd do the calculation, local effort rate  
times 90 cents. That one would be way higher than if we took the prior  
year's amount with the 10 percent growth and just used the basic  
allowable-- or the CPI, sorry, the new term, and grew it by new  
construction, would be less. So then what would happen is, is the  
TEEOSA formula would have the lower amount using the CPI number, not  
the 10 percent valuation growth. So the levy, the max levy for that  
district would be whatever that amount could generate, the lower  
amount, not-- not 90 cents, plus the 6 cents. But TEEOSA would also  
recognize that lower amount, not the higher amount of the 10 percent  
valuation. And if you're-- if they were an equalized district, TEEOSA  
would make up the difference there in what they-- what their levy  
would decrease.

**PANSING BROOKS:** So you don't think that-- that schools would need to  
raise their levies to make up for lost revenue?

**BRYCE WILSON:** Well, their levy would be-- if they had a-- this  
significant valuation growth, their levy--

**PANSING BROOKS:** Yes.

**BRYCE WILSON:** --would be held down below that 90 cents plus 6 cents,  
say 85 cents plus 6 cents, so they may be at 91 cents. But TEEOSA's,

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what TEEOSA is recognizing as a resource would also be held down and not at the higher amount, so their equalization aid would increase to offset that loss.

**PANSING BROOKS:** OK. Some of the people on--

**BRYCE WILSON:** --for equalized.

**PANSING BROOKS:** --this committee have talked about making TEEOSA easier. This doesn't really seem like it's easier. But anyway--

**BRYCE WILSON:** It doesn't make it easier but--

**PANSING BROOKS:** OK. Thank you.

**FRIESEN:** Thank you, Senator Pansing Brooks. Senator Kolterman.

**KOLTERMAN:** Thank you, Mr. Vice Chair. Mr. Wilson, thank you for coming. A couple of questions, do you remember what year that increase took place where we had to increase it? Has it been recent years or is it--

**BRYCE WILSON:** It was-- it was coming off of the-- the really bad years when we lowered the basic allowable growth rate to zero and half a percent because we held school spending down so much in those years, there was no growth in TEEOSA. That's why they increased it, so that would be somewhere around '11-12, '12 13.

**KOLTERMAN:** OK, that's close enough. Thank you. And the other question I have is, this really doesn't change anything that deals with poverty or English language learners or transportation, does it?

**BRYCE WILSON:** No, we don't change any of those pieces, those components in the TEEOSA formula.

**KOLTERMAN:** So those will remain just the way they are now.

**BRYCE WILSON:** Those pieces will remain the same.

**KOLTERMAN:** All right. Thank you very much.

**FRIESEN:** Thank you, Senator Kolterman. Senator Bolz.

**BOLZ:** Nice to see you again.

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**BRYCE WILSON:** [INAUDIBLE]

**BOLZ:** Did you have-- we went to the same high school, right? Did you have Mr. Hovorka?

**BRYCE WILSON:** I did.

**BOLZ:** You took me back to calculus with Mr. Hovorka. I'm not on the Education Committee, I'm not on the Revenue Committee, so you'll-- you'll have to sort of boil this down for me. Those calculations you just articulated, what do they achieve?

**BRYCE WILSON:** They- basically, I-- what I would say is done there is it controls valuations from growing at a significant rate, like the ag economy experienced these last several years is where they saw the 20, 25, 30 percent growth and all the--TEEOSA then, essentially they lost their TEEOSA. It got shifted to other places and they had to make it up for property taxes. So that's what happened there. This would slow that down to a CPI amount at the max, as opposed to growing just with whatever it actually grew.

**BOLZ:** So as it relates to the formula, it would temper the impact of a valuation-- of valuation fluctuations. That's the--

**BRYCE WILSON:** On the upside, yes, because we still take it times the LER and the-- if they were decreasing, it wouldn't-- it wouldn't slow anything down there, as long as-- on the increase side, it would.

**BOLZ:** OK.

**BRYCE WILSON:** Yes.

**BOLZ:** So what does that achieve-- what-- if folks could silence their cell phones, I'd really, really appreciate it. I'm trying to concentrate. I would appreciate it very much. So what is-- that is the goal. What is the impact of those changes on schools? Can you describe that?

**BRYCE WILSON:** Well, again, I would say on the equalized school districts the way that it works is any-- anytime that we hold down their valuation, or what's recognized as valuation in the formula, TEEOSA, or equalization aid, would increase then because it's showing a lower resource, so then that gap is made up with equalization aid.

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For the nonequalized school districts, that would not-- that would not be the case.

**BOLZ:** So will that result in a higher cost of TEEOSA in the state budget if we're making up for it?

**BRYCE WILSON:** Yes.

**BOLZ:** So on the appropriation side, I'll see a higher expenditure. I'm really just trying to understand--

**BRYCE WILSON:** Yes.

**BOLZ:** --if that's accurate.

**BRYCE WILSON:** Yes.

**BOLZ:** OK, thank you. You probably did better in Mr. Hovorka's class than I did. [LAUGHTER]

**FRIESEN:** Thank you, Senator Bolz. Senator Walz.

**WALZ:** Yes, I have a quick question. Thanks. The-- so the foundation aid component uses 25 percent of sales tax collections and income tax of the income tax liability. The question is, do you anticipate the foundation aid component will eventually outpace TEEOSA, the TEEOSA formula?

**BRYCE WILSON:** Well, I guess that's possible. TEEOSA has traditionally grown just around 5 percent when you average it. It obviously fluctuates a lot, but it's about in that same ballpark. So they may end up being very similar, but it's kind of hard to say for sure. But--

**WALZ:** Um-hum. And then I have another quick question. I know that-- I believe somebody said that you have modeled this for the next two years. Have you modeled anything beyond that?

**BRYCE WILSON:** No.

**WALZ:** Do you have any thoughts on if you did?

**BRYCE WILSON:** You know, TEEOSA is really hard to model going out very far because of all the shifts and-- and the different moving pieces. So I don't even-- to be honest, I don't even really like going out to

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the '20-21 year. I made a lot of assumptions to do that, so I don't. I think the best assumptions you've heard is seeing what the state revenue growth has averaged and knowing that foundation aid is going to go up probably each year by that amount, but outside of that, I think you-- you'd probably see, too, like, if this-- if something like this-- if this passed, the property tax amounts would decrease, which could affect the option funding. But outside of that, it's really hard to say.

**FRIESEN:** Thank you.

**WALZ:** Thank you.

**FRIESEN:** Thank you, Senator Walz. Senator McCollister.

**McCOLLISTER:** Yeah, thank you, Senator Friesen. You've modeled this bill going out a couple, three years, is that correct?

**BRYCE WILSON:** Two years--

**McCOLLISTER:** Two years.

**BRYCE WILSON:** --'19-20 and '20-21, which are-- that's two years.

**McCOLLISTER:** And it-- and it assumes a 4.7 increase in the state budget, or at least revenues?

**BRYCE WILSON:** In that-- in that '20-21 year, we put that assumption on that model.

**McCOLLISTER:** What happens if that doesn't occur?

**BRYCE WILSON:** If that doesn't occur, then the amount of foundation aid would be less than what was modeled in that bill and TEEOSA would be a little bit less.

**McCOLLISTER:** I understand. One other question, this bill utilizes values outside the TEEOSA formula with cities and counties. Would it be unconstitutional to put it inside the TEEOSA formula with these difference in values?

**BRYCE WILSON:** Well, I'm not an attorney, so I don't know if I want to answer that one, but you could-- there's been several bills introduced

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in the past that just changed valuations for TEEOSA purposes, if that's what you're referring to, not for other purposes.

**McCOLLISTER:** Thank you.

**FRIESEN:** Thank you, Senator McCollister.

**GROENE:** One question--

**FRIESEN:** Any other questions from the committee?

**GROENE:** --quick clarification.

**FRIESEN:** Senator Groene.

**GROENE:** We do a biennium budget, so a two-year model is nothing new to you or to anyone in the Fiscal Office. The Appropriations Committee asked you for a two-year model. I'm assuming you work with the Fiscal Office to help with that model.

**BRYCE WILSON:** We work with the Legislative Fiscal Office, but many times their model is used for the second year of the biennium budget.

**GROENE:** That's-- but-- but the modeling of two years is common in a biennium budget. That's nothing new.

**BRYCE WILSON:** They do that, yes.

**GROENE:** Yes. Thank you.

**BRYCE WILSON:** Yeah.

**FRIESEN:** Thank you, Senator Groene. Senator Briese.

**BRIESE:** Thank you, Senator Friesen. And thank you again. Following up on what Senator Stinner-- Senator Stinner asked earlier, and I didn't quite catch your answer on that, is it your opinion, as written, that the dollars we're talking about, the foundation aid we're talking about, the \$3,450 per student, whatever it is, times 309,000 students, so \$1.07 billion, plus the new revenue we're going to generate, that will-- that will always be dedicated towards the school funding formula or property tax relief, right?

**BRYCE WILSON:** Yeah.

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**BRIESE:** As written, there's no-- there's no snagging any of that backwards and going backwards on anything as times get tough, is there?

**BRYCE WILSON:** Well, my understanding, and that's on-- more on the revenue side of things, but my understanding from reading it is that the new revenues would be directed into the Property Tax Credit Fund and then we would do a calculation to determine how much of that Property Tax Credit Fund TEEOSA is going to get based on the-- couple of these changes here. And anything that was not used for TEEOSA would remain in the Property Tax Credit Fund to be used as property tax credit, so, yes.

**BRIESE:** And the foundation aid is set up to increase as per revenue increases?

**BRYCE WILSON:** And-- yes.

**BRIESE:** And so these dollars are talking about where we're starting out, it should be locked in, correct?

**BRYCE WILSON:** The-- the additional dollars are, yes.

**BRIESE:** Until the statute would be changed?

**BRYCE WILSON:** Yeah.

**BRIESE:** OK. Thank you.

**BRYCE WILSON:** Yeah.

**FRIESEN:** Thank you, Senator Briese. Any other questions from the committee? Senator Bolz.

**BOLZ:** Just-- just one. Am I understanding correctly that this proposal will result in different communities having different maximum levies?

**BRYCE WILSON:** Yes, that is correct.

**BOLZ:** What is the-- what is the implication of that?

**BRYCE WILSON:** Well, definitely more calculations and work for us a little bit, but-- well, I guess I don't know. I don't know how to-- I don't know what the full implications would be of that. I guess it would be-- if they're equalized, again, it wouldn't-- it shouldn't be

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end of the world to them because they would be-- be able to make it up in TEEOSA. If they're nonequalized, then it may become a bigger issue for them.

**BOLZ:** OK. Thank you.

**FRIESEN:** Thank you, Senator Bolz. Any other questions from the committee? So earlier when we were talking the growth of-- in it, what would you almost say, the equalized districts are the ones that are-- the foundation aid exceeds the 33 percent of the basic needs. So they're-- they're growing at whatever revenue growth, is that right, that that state aid will be growing at 4.7?

**BRYCE WILSON:** So you're saying if-- if foundation aid is more than that 33.3 percent calculation?

**FRIESEN:** Right, for those schools who receive just the per-student basic-- or foundation aid, that state aid is growing at whatever our state revenue grows, 4.7, 4.5 percent historic?

**BRYCE WILSON:** Yeah, I mean, essentially, but they're still getting the other pieces to that, so, you know, the--

**FRIESEN:** Still get equalization aid that--

**BRYCE WILSON:** Equalization aid or option funding or any of those things would all be--

**FRIESEN:** OK.

**BRYCE WILSON:** --added on to that.

**FRIESEN:** And so those schools then that you would consider, what, nonequalized, that are dependent on that 33 percent of basic needs?

**BRYCE WILSON:** Well, those-- that would be more than just the nonequalized. That--

**FRIESEN:** OK.

**BRYCE WILSON:** --because that's actually-- there's very few that actually don't get to-- at least enough out of this model, enough TEEOSA funding to reach 33.3 percent of their formula need.

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**FRIESEN:** OK.

**BRYCE WILSON:** So anybody that's below that then gets bumped up to the minimum of that 33.3 percent of formula need. So if they're-- if they're below that, what you would see, their aid would grow by how much their need was growing.

**FRIESEN:** So CPI.

**BRYCE WILSON:** Well, it depends. If they are a district that's been losing kids-- of course, it's not that simple. If they're a district that's losing kids and stuff and they've been-- needs have been propped up by needs stabilization, they may have zero formula need growth, so they may see no growth in that. Or if something changed in their district, their-- their array changed in basic funding and it gave them a big bump, they could see 10 or 15 percent growth in that-- in their TEEOSA in one year.

**FRIESEN:** How many schools are losing students--

**BRYCE WILSON:** How many-- oh--

**FRIESEN:** --rather than gaining?

**BRYCE WILSON:** Around half that--

**FRIESEN:** OK.

**BRYCE WILSON:** --probably-- probably more than that. I don't know for sure.

**FRIESEN:** Thank you. Senator Crawford.

**CRAWFORD:** Thank you, Vice Chair Friesen. And thank you for being here to answer these technical questions. I just wondered if you could explain need stabilization and-- and how this bill changes that at all.

**BRYCE WILSON:** Well, it does-- the bill doesn't change needs stabilization at all.

**CRAWFORD:** OK.

**BRYCE WILSON:** Needs stabilization essentially looks at-- when we calculate formula needs for a school district, just the very, very

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high overview is we do needs and then resources, the difference is equalization aid. So when we calculate needs for a school district once they hit a certain point, say the following year then, that they-- their needs calculated to be a lower dollar amount, need stabilization will bring them back up to that same kind of high watermark so that essentially what was determined was, even if a school lost a couple of kids and maybe lost some need, would-- losing a couple of kids doesn't mean that they could really necessarily lower their expenses. So it was kind of a way to keep schools-- kind of a hold harmless almost. I--

**CRAWFORD:** Yeah.

**BRYCE WILSON:** That word is kind of dangerous to use over-- but--

**CRAWFORD:** And that's-- that's retained. That is still [INAUDIBLE]

**CRAWFORD:** OK. Thank you.

**FRIESEN:** Thank you, Senator Crawford. Any other questions from the committee? Seeing none--

**WALZ:** I just have one quick--

**FRIESEN:** Senator Walz.

**WALZ:** --one quick question. I heard a lot about just the fact that funding our special education would-- at 80 percent would make a huge difference. Can you just talk a little bit about that? I know that's not part of the bill and that's really one of the reasons why I wanted to bring it up.

**BRYCE WILSON:** Yeah, so the-- the special education funding is-- is something where it has continually declined over time for the reimbursement to school districts. One-- one piece of that I think sometimes people miss is because of the-- the-- how the formula works, the portion that's not reimbursed by the state for the equalized districts essentially gets incorporated into TEEOSA and is included in TEEOSA. So because it's an accountable receipt on-- on the accountable receipt side and it's on the allowance side, if you upped that reimbursement for special education, the equalized districts wouldn't actually see an increase and may actually see a small-- a slight decrease because of how the formula works in-- in total funding. It's the nonequalized districts who get, I guess, the short end of the

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stick when it comes to the special education reimbursement decreasing significantly.

**WALZ:** OK. Thank you.

**FRIESEN:** Thank you, Senator Walz. Any other questions from the committee?

**BRYCE WILSON:** I had one more point on that. So if you did increase the special education reimbursement, what you would see is TEEOSA would actually decrease a little bit and offset some of that, some of that increase.

**FRIESEN:** Thank you, Mr. Wilson. Seeing no other questions, thank you for your testimony. Next neutral testifier.

**JOSEPH BISHOP-HENCHMAN:** Thank you. My name is Joseph Bishop-Henchman, J-o-s-e-p-h B-i-s-h-op, hyphen, H-e-n-c-h-m-a-n. I'm with the Tax Foundation in Washington, D.C. We're a national think tank that collects data and conducts analysis on tax issues. And we don't take a position on legislation, but I'd like to make three informational points for the committees. First, sales tax broadening is a common trend undertaken in many states now as a way of modernizing the sales tax to reflect today's service-based economy. However, you should be aware that including the sales tax exemption only for necessities is a difficult task, as every sale of a good or service will be considered a necessity by someone. Additionally, picking only a few goods and services to subject to sales tax, rather than a more comprehensive approach that doesn't leave many exemptions on the table, can leave the sectors you are expanding it to feeling unfairly targeted. Second, cigarette tax revenue declines year over year due to falling consumption of that product. This is a nationwide, decades-long trend. Using this revenue dollar-for-dollar for tax cuts elsewhere may balance in year one but will create widening gaps in subsequent years as that revenue source resumes its monotonic decline. Cigarette tax revenue should not be part of a package designed to be revenue neutral because it makes it not revenue neutral. Third, Nebraska currently has the 27th highest sales tax in the United States by rate when you include both state and average local sales taxes. This bill would take it to 17th highest, similar to Colorado's. Nebraska's property tax is currently 12th highest by collection, and this bill would take it to 14th highest, still higher than Kansas, Missouri, Colorado, South Dakota. Nebraska would still have the 19th highest individual income

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tax, just below Minnesota and higher than Missouri, Kansas, and Colorado, and the 16th highest corporate income taxes. This bill does not address either of those taxes. Overall, on our state business tax climate index, which is our comprehensive ranking of state tax structures, we projected that this bill would change Nebraska's from 24th best, 1st being the best, 50th being the worst, to 26th if the property tax reductions fully materialize and 29th if they do not fully materialize. And in that case, it would move Nebraska below Kansas in terms of our rankings of state tax structure. The overall goal of this bill of raising sales taxes and income taxes-- or, excuse me, raising sales taxes to pay for lower property taxes is not unprecedented. However, my home state of California has-- has that as the core of its tax policy. Put very simply, Nebraska has high income, business, and property taxes. Under this bill, Nebraska would have-- continue to have high income, business, and property taxes, but also have high sales taxes as well. Thank you.

**FRIESEN:** Thank you for your testimony. Any questions from the committee? Senator Groene.

**GROENE:** I don't have the numbers in front of me, but I think we collect, what, \$3.5 billion or so in-- in property taxes, \$4 billion?

**JOSEPH BISHOP-HENCHMAN:** I'll take your word for it, Senator. I don't have them in front of me either.

**GROENE:** If you pump \$500 million of that into offset property tax at the school level, that's-- and you're telling me you do that and you drop it by 20 percent, that 20 percent, you're-- 500 divided by 4, what is it? Twelve and a half percent. We're only going to drop two-- two spots on the-- on the ratings of property tax, from 12th to 14th, how did you calculate that?

**JOSEPH BISHOP-HENCHMAN:** That's collections per capita, so I assumed-- I assumed at 10 percent, not at 12.5 percent. I'd have to go and check. But if it was a 20 percent cut of total, not just of school, that would still take you only to 19th. It's-- it's a lot of states with high property taxes surrounding you.

**GROENE:** So there's wide gaps between 12th and 13th and 14th because when you drop 12.5 percent, you think that that array of 50 states, there would be closer-- closer between-- differences between each ranking.

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**JOSEPH BISHOP-HENCHMAN:** I can provide you the full table if you'd like.

**GROENE:** Yeah. Thank you.

**FRIESEN:** Thank you, Senator Groene. Any other questions from the committee?

**STINNER:** I do.

**FRIESEN:** Senator Stinner.

**STINNER:** If I understood you-- what you said, you said the broadening of the tax base, in other words, eliminating exemptions, is the best way to do this, but you do it in a whole sector and you don't pick-- pick and choose out of that sector which ones you're going to do, because our revenue code has consumers and services and everybody is in different types of sectors. So if we chose a sector, everybody is taxable in that sector.

**JOSEPH BISHOP-HENCHMAN:** Everyone will be upset that they have to collect sales tax if they don't have to collect sales tax. And, you know, on the one hand, you will have everybody here saying, I shouldn't have to collect sales tax, but on the other hand, you could say, look, we're not picking anyone, we're doing this for everybody. And that could be a response

**STINNER:** OK. Thank you.

**FRIESEN:** Thank you, Senator Stinner. Senator Briese.

**BRIESE:** Thank you, Chairman Friesen. Thank you for your testimony. So if you're talking about broadening the sales tax base, you should target only consumer transactions instead of business expenses?

**JOSEPH BISHOP-HENCHMAN:** Right.

**BRIESE:** Should-- should you target healthcare?

**JOSEPH BISHOP-HENCHMAN:** No state has, even the state--

**BRIESE:** Education expenses?

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**JOSEPH BISHOP-HENCHMAN:** No state-- only one state has, so even the states with very broad sales taxes have-- have shied away from those, but--

**BRIESE:** So if you're targeting--

**JOSEPH BISHOP-HENCHMAN:** --economists would say you should.

**BRIESE:** So if you're-- if you're targeting only consumer-oriented transactions, you really limit the amount of dollars you're talking about, don't you?

**JOSEPH BISHOP-HENCHMAN:** It would still be hundreds of millions of dollars.

**BRIESE:** OK. Thank you.

**FRIESEN:** Thank you, Senator Briese. Any other questions from the committee? Seeing none--

**JOSEPH BISHOP-HENCHMAN:** Thank you.

**FRIESEN:** --thank you for your testimony. After--

**TRACY REFIOR:** Good evening, Senators.

**FRIESEN:** --after-- after this, we will take in opponents again for five. Go ahead.

**TRACY REFIOR:** My name is Tracy Refior, spelled T-r-a-c-y R-e-f-i-o-r. I'm a financial advisor and president of Always Safe Storage in Eagle. I voice my opposition to the proposed tax of self-storage rents included in LB289. For sound policy reasons, Nebraska and nearly every state does not currently tax self-storage rents. At its core, my business rents real property, similar to businesses that rent apartments or office space. The rent-- the real-- or the rental of real property is fundamentally different from the list of goods and services upon which LB289 seeks to impose a sales tax on. Nebraska does not impose and is not seeking to impose sales tax on any other business of rental, real property, or have leases with their tenants. Self-storage should not be singled out for any adverse treatment. This bill will do no good for the common person. Landlords will only pass that tax onto the tenants, and we already pay, as you know, as far as quite a bit in real estate tax. Moreover, the typical tenant in my

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business is a lower to moderate income family or individual. Often, these families and individuals have residence that are too small for their needs or are experiencing some significant life event such as a death in the family, military deployment, housing or job loss, divorce, relocation. A tax on rental of storage space would yet be another burden or struggle on families and individuals, and this cannot be a result that the state wants. And I thank you for your time.

**FRIESEN:** Thank you. Was that testifying in a neutral capacity?

**TRACY REFIOR:** Ah, I'd say so.

**FRIESEN:** Any questions from the committee? Seeing none, thank you for your testimony. Opponents?

**LIZ STANDISH:** Good evening, Senator Linehan, Senators, Senator Friesen.

**FRIESEN:** Welcome.

**LIZ STANDISH:** My name is Liz Standish, spelled L-i-z S-t-a-n-d-i-s-h. I am the associate superintendent for Lincoln Public Schools and I'm here testifying in opposition to LB289 as amended by AM1381 for the school district. First, I think it's important to note that this proposal identifies significant work in additional funding for PK-12 education. It's also important to note that replacement revenue streams will be required if property taxes are reduced in order to ensure our children's school-- our children attend quality schools. Under LB289 as amended by AM1381, we estimate that Lincoln Public Schools would lose approximately \$2.3 million when compared to current law. This is if LPS is able to levy at the maximum tax rate of 95 cents. We are concerned that, based on the calculations, our maximum levy could drop to 93 cents. If our levy does drop for a maximum to 93 cents, you can add an additional \$4 million, so our loss would be closer to \$7 million under this bill. This is based on looking at the state aid increases in the models provided by NDE and the decreases that would correspond in anticipated property tax revenue. In addition, the models indicate that Lincoln Public Schools will become a needs-stabilized school district. Our school population will be growing, but our needs will be stabilized based on losing the averaging adjustment. The averaging adjustment is intended to recognize high-taxing school districts with high student needs that

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have been at the lid and had very low revenue. It must be maintained. Beyond 2021, the impact of LB289 is challenging to approximate. I think we've heard that and covered that today. It disconnects formula resources from the actual valuation changes in a community. I do think that's purposeful, but we need to take a look at that. That's a monumental shift in policy. As a growing school district, LPS isn't concerned about the inflation rate yield methodology. It is very likely that we could be growing, our city could be growing, and our revenue per student could be shrinking under this proposal. I would also like to mention foundation aid. This proposal earmarks 25 percent of sales and income tax revenue for foundation aid described at \$3,400 per student, but there are two calculations. Many school districts across the state would be relieving-- receiving up to 5,000 students. That would-- \$5,000 per student. That would be predominantly smaller school districts that do not have the diverse allowances that are pulled out of their basic funding. In addition, there's guaranteed foundation aid. So those of us that rely on equalization are very concerned those two foundational elements of the formula will outpace the ability of the state to fund, and equalization is where the cuts would occur. That concludes my testimony, and I'm available to answer any questions you may have.

**FRIESEN:** Thank you, Ms. Standish. Any questions from the committee? Senator Bolz.

**BOLZ:** I-- I have a few and I ask-- I guess ask the committee's patience because I think I'm the only Lincoln senator here. Thank you so much for your-- your testimony. I think one of the things I'm-- I'm hearing is a concern that you're expressing is that because Lincoln-- Lincoln has some-- some challenges that are maybe not entirely unique to Lincoln, but somewhat unique to Lincoln related to growth, English as a second language, poverty, special education. Can you just describe to me a little bit more how those demands butt up against what's being proposed today?

**LIZ STANDISH:** Right. So the concern we have about growth, I think we need to talk about-- and I have an example with me which I think will help-- the inflation rate yield methodology. So the local resources in the formula that generate state aid, we're going to run two calculations. That's going to be applied to our resources that generate our equalization aid, but that's also going to be the limit that's going to be used to set our maximum levy. And those numbers are going to be different for every school district, so it is possible

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that every school district in the state will have a different maximum limit. So if we look at the inflation rate yield methodology, the first thing it would do is look at what we had last year. It would grow it by the CPI. And I pulled the CPI for September for the last ten years, and if I could just run through those numbers coming out of the Recession, makes sense, negative 1.3, 1.1, 3.92, 1.2, 1.70, 1.5, 2.2, 2.3. So there could be a year where your CPI could be zero, your CPI could be 1, your CPI could be negative. On the taxing side, it's allowed to flow, negative or positive. On the formula side, for the base limitation, it is limited to that zero to 2.5 range, which is in the range we've been in the last ten years. So the first thing I get to do is grow by the CPI, and the second thing is to look at valuation attributed to new construction growth. And you live in Lincoln, so you know the amount of new construction growth we're experiencing. But I'm really surprised when I look at the numbers from accounting. I pulled the most recent numbers from April and our overall growth that was certified is 7.2 percent going into next year, but only 2 percent is attributable to growth. So you're looking at a \$25 billion number where only \$500 million is really attributable to growth. So we would be not having the valuation growth based on what's happening in the residential, only the new construction growth, so new construction in an area that's raising home values in a segment of town would be limited. I think that's a really important observation for Appropriations Committee members to understand because, as we lay out this framework, we have 25 percent of sales and income tax revenue earmarked for foundation aid, which ranges from \$3,500 to over \$5,000, based on the school. We have guaranteed funding at 33 percent and somewhere in the middle we have equalization aid. So if you put that storm together, the question becomes, what would be the lever that would be tweaked or cut if the state has to make adjustments through the budget process? That is the genuine concern of equalized school districts and growing schools.

**BOLZ:** Um-hum. So I'm going to try to simplify that a little bit for myself. Is it-- is-- is the way you're thinking about this is that TEEOSA appropriations wouldn't necessarily increase in future years?

**LIZ STANDISH:** I believe the equalization side of the formula will escalate dramatically.

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**BOLZ:** So the equalization side escalates dramatically. The next senator from District 29 who's sitting in the Appropriations Committee and can't afford that because the budget just can't keep pace--

**LIZ STANDISH:** Right.

**BOLZ:** --has to tweak the formula. And one of your concerns is which buttons and levers would be used and how that would impact Lincoln Public Schools.

**LIZ STANDISH:** Because you have the competing factor of the 25 percent earmark, you have the competing factor of the 33 percent guaranteed funding, and you have equalization in the middle, which, based on my reading of the bill, has nothing that guarantees that it's going to be funded.

**BOLZ:** OK. One-- one more question, if you don't mind. My other question, I tried to ask Mr. Wilson this, but let me see if I can ask you this better. If-- under this bill, this proposal, could-- I understand the levy would vary school district to school district. Could it vary year to year within Lincoln Public Schools?

**LIZ STANDISH:** Yeah, each year I believe we would have a different maximum levy based on this proposal.

**BOLZ:** So how would the-- how would the school board handle that? What would that mean in terms of trying to set budgets for the future?

**LIZ STANDISH:** So you would be looking at-- I would anticipate that a lot of school districts with growing value would be using the inflation rate yield calculation method. I believe our adjusted valuation at the 90 percent with the 95 cents would be higher, and it's the lesser of the two. So each year you would have your valuation, your resource, your local formula contribution from the prior year, you would have your CPI number from October, and then in April you would get your information that gives you a guide on what your new growth might be able to do. And then I'm anticipating-- I don't know that we've had any conversations about operationally how I get authorized, my levy amount. There is a lid computation process that I'm guessing would be used, but you wouldn't have you'd have a lot of moving parts to estimate as you're going through a budget process that that would get a lot more complicated for school board members.

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**BOLZ:** And a school board member might have a little bit more difficulty doing long-term strategic planning in a situation--

**LIZ STANDISH:** Correct. I think we would be a needs-stabilized district, which is unique because we're a growing school district. I believe we would also be capped on the revenue side, so we would have shrinking revenue per student in Lincoln Public Schools.

**BOLZ:** OK. Thank you.

**FRIESEN:** Thank you, Senator Bolz Senator Groene.

**GROENE:** Well, you're basing your \$2 million or something off of two factors. I'm assuming that you were going-- the levy limit would be 5 cents above, not the 6 cents we're proposing, and also the fact, the averaging adjustment. But isn't it true the averaging adjustment has nothing to do with your needs, that your needs are calculated like all the 244 districts and all but 2-- all but 19 school districts live on their needs and then you get a bonus amount of money because of some odd calculation that a previous Legislature created? Is that not true?

**LIZ STANDISH:** Let's do both questions one at a time, if I may, Senator.

**GROENE:** You do get your needs, your-- your needs calculation and that's what you're based on [INAUDIBLE]

**LIZ STANDISH:** The first one you said was a different amendment that was filed.

**GROENE:** Yeah.

**LIZ STANDISH:** If there is another amendment that's been made available to the public, I--

**GROENE:** And you haven't seen it, no.

**LIZ STANDISH:** --I apologize, I would not have had access to that.

**GROENE:** I didn't mean to accuse you on that. I'm just saying I--

**LIZ STANDISH:** So I did my analysis based on the amendments--

**GROENE:** Right.

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**LIZ STANDISH:** --that were made public for this hearing. The second is the averaging adjustment. The averaging adjustment was put in the formula in the rewrite in 2008, LB988. It was part of that original rewrite. The logic behind it was looking at the J curve of school finance. So the J curve of school finance tells you smaller school districts are going to have higher cost. They do not have the scale that larger school districts do. We all recognize and know that. But as you get bigger, those costs go down. As you get more diverse, your costs go back up. And within the formula, the basic funding subtracts out your cost related to serving English language learners, children with special needs, and children in poverty. Those allowances are subtracted from the basic funding. So averaging adjustment school districts that are predominantly urban school districts serving high-needs students have low basic fundings per student. The original intent looked at those school districts, said they're up against their levy maximum so they don't have anywhere to go to generate more revenue. They said, let's at least give them a proportion to the state average.

**GROENE:** That isn't--

**LIZ STANDISH:** The original was state average of all school districts in the state.

**GROENE:** Thank you.

**LIZ STANDISH:** The next year it was a change to greater than 900.

**GROENE:** Thank you. That isn't the way I understand it when I read the record. When you say the 25 percent of the-- for the foundation aid revenues, the reality is most of that is offset because now it's a resource by the lower rate of equalization aid. Is that not true?

**LIZ STANDISH:** That's correct.

**GROENE:** So it isn't a huge-- you made it sound like it was three distinct piles of money, but it is offset. It now becomes a resource, so your-- your equalization aid drops by \$500-600 million across-- statewide. The other point of this is what I've heard from a lot of small districts that do not get equalization aid, and some large ones. It's easier to calculate where you sit because now you know for sure how many students you have, you know what the foundation aid is, and you have some idea at least what your basic state aid is and you can plan for the future. Right now, 170-some districts cannot do that,

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especially those that sit on-- on the line on equalization aid. When they lose that equalization aid, they don't know. You do, but it doesn't affect you because now you're replacing your equalization aid, you know how many students you have, what the money is. I don't see how it-- how it makes it more challenging, Miss. I-- I just don't see it.

**LIZ STANDISH:** The challenges include, first of all, the direct loss of revenue. So when we're in a state that is saying we're putting hundreds of million more dollars into education, predominantly urban, diverse school districts come out of the deal with less money. So that's-- that's problem number one.

**GROENE:** Because of the averaging adjustment. But--

**LIZ STANDISH:** Because of the averaging adjustment.

**GROENE:** But you do not. Because of-- of the needs stabilization, you never would go lower than what you-- what the last year was of the averaging adjustment is. Your growth may slow, but you do not lose money.

**LIZ STANDISH:** I do lose money, sir.

**GROENE:** Not on--

**LIZ STANDISH:** My-- my analysis does take money down.

**GROENE:** Not the needs stabilization from year one to year two.

**LIZ STANDISH:** Needs stabilization stabilizes me today, but my school district is still growing, so my per-student revenue is absolutely going down.

**GROENE:** Two hundred-some districts don't get any averaging adjustment, a bonus at the end of the day.

**LIZ STANDISH:** Nineteen school districts, representing over 200,000 students, do, which represents two-thirds of the students in the state.

**GROENE:** Thank you.

**FRIESEN:** Thank you, Senator Groene. Senator Briese.

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**BRIESE:** Thank you, Chairman Friesen. Thank you for your testimony. Just want to clear on this. We talk about a loss of \$2.3 million. Is that an actual loss or is that a loss from actual '18-19 revenue--

**LIZ STANDISH:** No, that's a--

**BRIESE:** --or is it a loss of potential revenue?

**LIZ STANDISH:** That's a loss looking at current law for 2019-20 to this bill for 2019-20. We are actually, under current law, anticipating a loss in state aid in Lincoln Public Schools, so there is a loss in revenue.

**BRIESE:** What is your total budget?

**LIZ STANDISH:** Our total budget is about \$450 million.

**BRIESE:** Four hundred and fifty million?

**LIZ STANDISH:** For general fund.

**BRIESE:** And we're talking about being able to access \$2.3 million less under this than you would have otherwise.

**LIZ STANDISH:** With growing needs, with all due respect, sir.

**BRIESE:** OK. Thank you.

**FRIESEN:** Thank you, Senator Briese. Any other questions from the committee? So the reason you're losing revenue is because of valuation growth?

**LIZ STANDISH:** The reason we would be losing revenue is because of the state aid increase does not keep pace with the loss in the property valuation--

**FRIESEN:** OK.

**LIZ STANDISH:** --that we would have access to.

**FRIESEN:** Thank you. Seeing no further questions-- Senator Murman.

**MURMAN:** Hey, I've got just one quick question. I-- I've seen a lot of figures that the district I represent has a very high level of children in poverty. I'm just wondering if you know how Lincoln Public

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Schools compares to the typical rural district, because the figures I've seen I think are-- we're just as high.

**LIZ STANDISH:** We're about 44 percent of students that participate in free or reduced-price lunch. So I-- I don't know if you know the numbers for the districts you're thinking of, but that would be the comparison.

**MURMAN:** I think they're very comparable. Thanks.

**FRIESEN:** Thank you, Senator Murman. Any other questions? Seeing none--

**LIZ STANDISH:** Thank you.

**FRIESEN:** --thank you for your testimony. Welcome.

**DAVE WELSCH:** Welcome. Have to change my script here. Good evening, Senators. [LAUGHTER] My name is Dave Welsch, D-a-v-e W-e-l-s-c-h. I graduated from Milford Public Schools in 1976. In 1980, I graduated from UNL with a teaching degree. In '78, I began farming. In '82, I became an ag land and residential property owner. I have served on two school boards for a total of 27 years. I currently serve as the president of the Milford Public Schools Board of Education. I have a strong interest and involvement in both agriculture and education. I believe that this experience provides me with a unique perspective as we consider LB289 and AM1381 today. I'm here to testify in opposition to AM1381. But first of all, thank you for your efforts to generate approximately \$350 million in new revenue to fund the proposed bill. However, \$500 million had been the target as the minimum level-- level-- level needed to provide significant property tax relief. I oppose using the \$224 million in the Property Tax Credit Fund to fund AM1381. Since the beginning of TEEOSA in 1990, Milford has been an equalized district. Equalization aid has helped to bring closer together the tax levy across the three school districts in Seward County. Needs minus resources equals equalization aid has been the backbone of TEEOSA. But unfortunately, the resources side of the equation was not able to correct for the doubling of ag land values over five years, from 2010 to 2015. Because of this, many rural equalized districts incurred a significant loss of state aid. Therefore, an adjustment needs to be made to TEEOSA to correct for this. I do not believe that AM1381 does that. Also, the local effort rate being set at a dollar puts a significant burden on local property owners. The LER needs to be lowered to at least 80 cents to provide

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significant property tax relief to equalized districts. AM1381 does not lower the LER enough. There are also many nonequalized districts in our state who deserve to be at least partially funded by the state. The best way to do that would be through a small percentage of basic funding. AM1381 attempts to provide foundation aid per student, but unfortunately it appears to skew the TEEOSA formula in a way that doesn't bring tax equity, in a way that brings levies closer together. So if the Revenue Committee would draw from the bills that have already been introduced, you could lower ag land values within TEEOSA to 50 percent, lower the LER to 80 cents, and provide 15 percent of basic funding. Then all school districts and taxpayers would benefit. Thank you, and I'd be happy to answer any questions.

**FRIESEN:** Perfect timing, Mr. Welsch.

**DAVE WELSCH:** I've had a little practice.

**FRIESEN:** Is there any questions from the committee? Senator Bolz.

**BOLZ:** I'm just-- good evening. Hi.

**DAVE WELSCH:** Good evening.

**BOLZ:** I'm just curious, I mean, do you have other ideas to put on the table? Is there a different approach, given all your experience and perspective?

**DAVE WELSCH:** Yeah, the-- the approach that I would recommend would be kind of what was outlined in the last paragraph, kind of three fairly simple parts I believe that if you understand the current TEEOSA formula, I think you can understand these three changes. One would be lowering the ag land value from 75 percent in TEEOSA to 50 percent. And as I mentioned, that would help bring equalization aid back to the rural equalized districts that lost a significant amount of equalization aid when ag land's value-- when ag land values doubled. Case in point, at Milford Public Schools, we have approximately an \$8 million budget and we lost \$1.6 million in equalization aid over a seven-year period. All of that had to be made up through property taxes, and this would help to correct for that lost. Secondly, if we would bring the local effort rate from a dollar down to 80, that would also help rural equalized districts, but just as importantly, it would help our urban friends as well. As we all know, whatever package you bring out on the floor of the Legislature is clearly going to need 33 votes to override a filibuster and 30 votes to override a Governor's

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veto, which is pretty much guaranteed if you read the papers at all. We've got-- so by lowering the LER from a dollar to 80 cents, again, that would help rural equalized districts, it would help our urban equalized districts. OK, number three, so what's left? You've-- we've really got one urban district that's not equalized. That would be Westside, I believe. And we have a whole slew of rural districts that also are not equalized. So how do we provide them with some funding? As I mentioned in my testimony, I believe every student across the state deserves at least some state support for their education in Nebraska. So if we could provide 15 percent of basic funding, I believe that would accomplish that as well. And-- and again, these parts have all been introduced by other bills, LB695, LB497. I'm not going to talk much about the revenue generators but, you know, LB614, LB314, they've all had revenue generators as well. When we model this out, what it does, it allows pretty much all the urban equalized districts, and it's been clearly pointed out that they educate a vast majority of the students in the state, they could all drop their levy about 20 cents, including Westside, by the time they pick up their basic funding of 15 percent. It almost comes out in that same 19-21 cent range that they could drop their levy. And so we kind of hit a sweet spot there with those numbers. Again, we'd bring a lot of aid back to the rural districts and-- and the districts that will be helped the most when you move out into the rural part of Nebraska would be those that-- and this isn't true of all school districts. You're-- as you are well aware, with the diversity of 244 school districts, you're not going to come up with that perfect formula that's going to bring everybody's levels down to the same endpoint. Many districts have a very high levy right now. But by providing basic funding, they could bring down their levies. But again, most of the districts that would qualify for the basic funding already have a somewhat lower levy as a whole. The rural districts that have a-- you know, are bumping up against the lid or over 90 cents, 80 cents, many of them would get down into that 50-60 cent range and-- which I think would be significant for them. I think this really compresses the levies across the state. A large portion of them will be in that 50-60 cent range. I'll leave you just-- just with one-- some stats here. Under our current plan, there's 80 school districts that have a levy over 90 cents. Under this model that I've described, there would only be one district over 90-- a 90-cent levy. That would be Westside, I believe. Currently, schools with levies between 75 and 90 cents, we have 50 school districts. That could become 32 districts. And then for levies below 75 cents, we currently have 114 districts and that would

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increase to 211 districts, an increase of 97 school districts that would drop down below 75 cents. Also, we currently have 82 equalized districts in the state, and with this three-component plan, we could add 49 more equalized districts for a total of 131. And then we'd only have 113 nonequalized, so we'd get the balance back to where it was a few years back. So I'm happy to take any other questions.

**BOLZ:** Thank-- thank you. It's helpful to have such a thoughtful alternative to consider.

**DAVE WELSCH:** Thank you.

**FRIESEN:** Thank you, Senator Bolz. Any other questions from the committee? Senator Murman.

**MURMAN:** Yeah, thanks a lot for coming in again. I totally agree with your figures there. I think those would work very well and be a lot simpler. But I'm just curious, what do you consider to be 15 percent of basic funding? Just approximately, what do you think that would be?

**DAVE WELSCH:** Well it would be-- I believe it would be different for each school district. Your basic funding is based upon what your district's general fund operating expenses are per student, and then you take the ten districts higher, the ten districts lower, you kick out the two high, the 2 low, and that creates the number that I believe is called basic funding. And so you would receive 15 percent of that. So it would be slightly different for every school district across the state but it's-- it's a number that's calculated on a regular basis in our current formula, I believe, already.

**MURMAN:** OK. Thank you.

**FRIESEN:** Thank you, Senator Murman. Any other questions from the committee? Seeing none, thank you for testifying, Mr. Welsch.

**DAVE WELSCH:** Thank you.

**FRIESEN:** Do you think this might be the last time?

**DAVE WELSCH:** You never know, if you guys pop another hearing out on us, I'm glad to come back.

**DOUG KAGAN:** Good afternoon. Doug Kagan, D-o-u-g K-a-g-a-n, representing Nebraska Taxpayers for Freedom. We believe that the

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amendment to LB289 features many negative elements for taxpayers but only minuscule positive elements. A huge boost in the state fund, spending on K-12 schools, however, no locked in, permanent requirement for school districts to cut waste or rein in their property taxes, which account for about 55 to 60 percent of the total property tax bill. The increase in the state sales tax would hit especially hard consumers in urban areas who are also pay local sales tax, a total of 7.75 percent in Omaha. A hike in the documentary stamp tax and real estate transactions. So if you buy a \$200,000 house today, you pay \$450 in documentary tax. The minimum would double this tax to \$900. That's not good news for homebuyers or the real estate industry. Initially levying sales tax on a few services subsequently would believe, will lead to expansion of this tax to other services. We believe this is apparently to win support among Omaha senators. The amendment boosters included as tax limit exception that would allow the Omaha Public Schools to raise its property tax levy to accrue approximately \$12 million more annually to help fill a \$771-plus million gap in its mismanaged pension system. OPS could raise property taxes 6 cents for \$100 a valuation without a vote of the residents. On a \$200,000 house, \$120 more, a tax hike that would last decades. The bill would lower valuation on farm and ranch land from 75 percent of the market value for property tax purposes to 65 percent residential property from 92 to 100 percent of market value to 90 percent. However, local taxing entities simply could raise their property tax levies eventually to increase revenue. The bill places a cap on property tax spending increases based on the consumer price index plus real growth in the state economy. However, there already exist several spending lid exceptions, transforming lids presently into what we call "Swiss cheese lids" and as future Legislatures conveniently could blast off the cap. Most current state property tax credits given property owners would disappear. And worst of all, and I emphasize this, worst of all, bill sponsors did not even attempt to include budget cuts in the General Fund to trim waste and redundancies, actions that could have provided millions of dollars for property tax relief. This bill in our opinion resembles the infamous three-shell game, tasking taxpayers to select the shell under which the property tax relief P lies. Unfortunately, there is no P.

**FRIESEN:** Wrap up, please.

**DOUG KAGAN:** OK, one more sentence. Limping into this hearing without full support by this committee member, the amendment already appears

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on life support. We urge, we urge the committee to give it a graceful demise. Thank you.

**FRIESEN:** Thank you, Mr. Kagan. Any other questions from the committee? So when you talked about cutting spending, where would you cut from?

**DOUG KAGAN:** The General Fund budget.

**FRIESEN:** In the state budget?

**DOUG KAGAN:** Oh, there's-- I could stay here all evening and entertain you with thoughts about--

**FRIESEN:** Just asking a question. I wonder if you wanted to cut off from school funding or the General Fund budget. Just curious where you would cut from.

**DOUG KAGAN:** Well, there's, first of all, you could establish zero-base budgeting in each state department and agency. If you just to have a 3 percent across the board cut in all departments and agencies. You could restrict TIF, TIFs, which we believe are out of control. You could eliminate sales tax exemptions like the Tax Foundation, the--

**FRIESEN:** So you would be in favor of the sales tax exemption?

**DOUG KAGAN:** Yes.

**FRIESEN:** OK.

**DOUG KAGAN:** OK.

**FRIESEN:** OK, thank you. Any other questions from the committee? Seeing none, thank you for your testimony.

**DOUG KAGAN:** OK.

**BRADY RHODES:** Hello, my name is Brady Rhodes. I spell that B-r-a-d-y R-h-o-d-e-s. I'm a member of the Hastings Public School's Board of Education. I'm a parent of two students in elementary school. I really want to thank you for what you're doing here. This is complex stuff and I just really appreciate your time. This is great for me to see and appreciate what you're doing to try and figure out this complex issue you have in front of you. The Hastings Public Schools is a member of the Greater Nebraska School Association, who represents about two-thirds of the students in Nebraska. I'm here to testify in

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opposition to LB289. We understand that this Legislature is trying to provide property tax relief and we appreciate that you're investigating avenues to generate funding to provide property tax relief without devastating schools. We appreciate your efforts and we appreciate your willingness to hear our concerns today. Our district currently receives about 56 percent of our receipts from the state and has a general fund levy that is, that is at the state maximum of \$1.05. This legislation will likely result in very little or no increase in receipts for our district. On top of this they used the consumer price index as the tool that determines growth will slow our growth, which will put us in a more difficult position than we are already in. Our district has really been great fiscally. In the last several years we've-- and right now we're really working to cut. Our industry has cut over \$800,000 worth of expenses for the 2019-2020 school year. We're spending down our cash reserve and we're currently asking the community to approve a levy override. All this is despite the fact that we're a low-spending school district. LB289 will put us in an even tighter situation, while not allow us to grow at an acceptable rate. One of the methods that could be used to help districts such as Hastings would be to have more flexibility with the maximum levy, maybe 10 cents over the LER, rather than the 5 cents or the 6 cents that Senator Groene is proposing. This would still achieve property tax relief but provide the local school board with the ability to generate more funds where needed. Thanks very much for letting me share your, our concerns.

**FRIESEN:** Thank you, Mr. Rhodes. Any questions from the committee?

**BRADY RHODES:** I did bring our business manager here. He can answer some technical questions if needed.

**FRIESEN:** Seeing no other questions, thank you for your testimony. After this--

**DOUG KELLOGG:** Good afternoon, everyone.

**FRIESEN:** --we'll switch to neutral testimony.

**DOUG KELLOGG:** Members of the committee, thank you very much for your time this afternoon. My name is Doug Kellogg, I'm state projects director with Americans for Tax Reform. The name is spelled D-o-u-g K-e-l-l-o-g-g. ATR was founded in 1985 by Grover Norquist at the request of President Reagan to advocate for tax reform. Today we

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continue to advocate for taxpayers, and across the 50 states work to advance policies that favor limited government and we oppose tax increases. And that's what brings me here today, in opposition to AM1381, is that this legislation represents a permanent tax increase on Nebraskans with very limited guarantees to no guarantees that the spending driving high property tax will be limited in the future. It's disappointing that we're focusing on this bill when I believe the right approach is on the table. There are measures in this legislation, the limits to property tax valuations we very much appreciate. Those are good steps. One great measure that passed was LB103, and we applaud your work on that front. The property tax cap, however, the Governor has supported has not moved, and there are other provisions that we would be very interested in. But our focus here is to say that the problem is on the spending front, not the revenue front. And our great concern here is that Nebraskans are hearing about property tax reform but what they're getting here is a series of massive regressive tax increases and a giveaway to local governments. Let's start with the sales tax increase. The Governor's Office estimates that the \$210 million increase. It's a regressive tax and it will impact everyone in the state, making the cost of living more expensive. Soda taxes have ended up backfiring in cities that have tried them, take Philadelphia for example, which saw folks start shopping outside of the city. This creates an effect where you have a tax those regressive and hits low-income families, but also a risk of creating food deserts if stores have to close. Now the tax in this bill is definitely not identical, but it would make the Nebraska sales tax rate higher than Iowa's, risking similar effects. There's also a near 40 percent increase in the cigarette tax. It's another regressive tax hike that disproportionately affects low-income Nebraskans, and revenue projections from the tax are likely to fall short. Less than 10 percent of cigarette tax hikes from 2009 to 2016 met revenue projections. So not only is that a bad deal for taxpayers, if revenues fall short we may see a demand for additional tax hikes in the future as a result of this legislation. So let me, let me get to the, my close here, for running low on time. Nebraska's own history shows that raising state taxes to increase school aid and tamp down property taxes did not work before, and I think it's time to realize that they may be part of the problem and exacerbating the issue. Governor Rick, Ricketts has led on this issue and we applaud him for standing up for taxpayers. And we urge you to reject the amendment because of the

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significant tax increases. We certainly encourage you to continue to pursue reforms to limit spending.

**FRIESEN:** Thank you, Mr. Kellogg.

**DOUG KELLOGG:** Thank you very much.

**FRIESEN:** Any questions from the committee?

**DOUG KELLOGG:** Thank you very much.

**FRIESEN:** Senator Walz.

**WALZ:** I'm going to just echo the question that Senator Friesen had. Where would you consider cutting spending?

**DOUG KELLOGG:** I think, well, the person who spoke before me talked about the state level. I think the trick here is how do we suppress local government spending growth. I think some of the proposals I mentioned are positive steps. I think that the concern here, and it's difficult work, but it is getting an equation where we get spending reduced at the local level. I think my understanding is that there's a lack of, a little bit of a lack of information as to how all of tax dollars are being spent by school districts. So I think there is certainly a need for review there to find areas to focus on for them. But I think this is less of the state needs to cut X spending item out of state budget and more, what is definitely a tricky proposition, but is necessary, is how do we get local school districts, how do we get local governments to stop spending as much? How do we address that spending issue, rather than doing more damage to state taxpayers and simply shifting the tax burden around? We're saying Nebraska's property taxes are too high, the tax burden is too high. Shifting that and increasing taxes, especially regressive tax increases, this is not the right approach in our eyes.

**WALZ:** Thank you.

**FRIESEN:** Thank you, Senator Walz. Senator McCollister.

**McCOLLISTER:** Yeah, thank you for coming here this evening.

**DOUG KELLOGG:** Absolutely.

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**McCOLLISTER:** Do you agree with the Tax Foundation, the best way to deal with some of these, these taxes is to broaden the tax, sales tax base and reduce the rate?

**DOUG KELLOGG:** Well, I think the best way to answer that question, and I may answer some other questions that you might have is ATR regards a tax increase as something that increases the overall tax burden. So we-- there is wiggle room, we would not, certainly not be upset if there were less detrimental tax hikes included in a package as long as the offset is sufficient. So that's a short way to say you could do that. We don't necessarily agree, you know, one to one with this specific case with the Tax Foundation. But we certainly think that you can absolutely look to change the dynamic of the tax system by increasing taxes elsewhere, as long as the overall burden on taxpayers is not increased.

**McCOLLISTER:** So what I hear you saying is, yeah, you can broaden the sales tax base and reduce the rate and you wouldn't consider that being a tax increase?

**DOUG KELLOGG:** Absolutely, potentially. That is what I'm saying.

**FRIESEN:** Thank you, Senator McCollister. Senator Kolterman.

**DOUG KELLOGG:** Thank you for your question.

**KOLTERMAN:** Do you pay, do you pay property taxes in Nebraska?

**DOUG KELLOGG:** I do not personally, no.

**KOLTERMAN:** Income taxes?

**DOUG KELLOGG:** No, I pay taxes where I live, in Arlington, Virginia.

**KOLTERMAN:** All right, thank you.

**FRIESEN:** Thank you, Senator Kolterman. Any other questions? Senator Murman.

**MURMAN:** Thanks for coming in. Did I hear you correctly that soda and cigarettes are necessities?

**DOUG KELLOGG:** I don't think I said that.

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**MURMAN:** Oh, I must have misunderstood. Sorry about that. Also, you're talking about--

**DOUG KELLOGG:** Water is a necessity.

**MURMAN:** OK.

**DOUG KELLOGG:** Bottled water, that would be a necessity.

**MURMAN:** I'll give you that one.

**DOUG KELLOGG:** Who taxes water, honestly?

**MURMAN:** Also you talked about cutting state spending, if I understood correctly, to, to achieve--

**DOUG KELLOGG:** I think--

**MURMAN:** --property tax relief.

**DOUG KELLOGG:** And again, I'm not here to-- I'm not making any claim to be able to go into the weeds on local government spending and tell you everywhere you should cut. But I think the focus, and I think the legislation that I was referencing, the state legislation, is focused on limiting the increases we see in local government spending and potentially reducing that in the future. Not in the sense-- I'm concerned about state spending in the sense that you're imposing a significant tax increase, I believe. Which the Governor says is the largest tax increase in Nebraska state history, to then send that money to localities. I'm concerned about that bargain, which I think for taxpayers is not a solid enough deal.

**MURMAN:** Well, in recent years we have put a bigger burden on local school districts by not funding them sufficiently from the state. So what would be your answer to change that?

**DOUG KELLOGG:** Yeah, I think that-- I think that just goes back to what I'm saying before. I mean we may have a disagreement here, but is that there should be an analysis and responsibility for, demanded from local governments to tamp down their spending and the growth that is clearly driving you all to say that there is a massive tax increase necessary in order to compensate for that.

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**MURMAN:** But when we're talking about local governments and what we're talking about here, a big share of that would be K-12 education.

**DOUG KELLOGG:** Absolutely, it's a big it's a big piece of that. And there's no disagreement there. That's a big piece of that, and it's not to say that, that that spending should just be arbitrarily chopped off. I think it should be intelligently examined. And I think it's something about 60 percent of the local property tax burden is schools. But are the school district spending all of that money wisely on things that improve education? Some certainly are, but some may not be.

**FRIESEN:** Thank you, Senator Murman. Senator Stinner.

**STINNER:** I did a 10-year look back on a school district in my-- and actually it's the school district I served on the school board. And your contention is we got, we're out of control at the local level on spending. Here's what happened. Over a 10-year period of time they've increased spending by half a percent. That's what they've averaged. But because of resources less needs and property valuations go up on the farm community so high, it shifted what has happened at the state level to the property tax owner. And that's where we get the big increase in property tax. That's what we're trying to solve. I can tell you that I've looked at a lot of school districts, they are not in control on spending. They do have some, some limits and levies and all the rest of that kind, or lids on certain types of expenditures. And obviously, like special ed does not. And there are exceptions. But for us to sit here and say: They're out of control or-- I just totally disagree with that. We do have school districts that are growing, and of course their budgets are growing. But it's that resources less the needs formula part of that thing and the shifting back to the property tax side of things. And because the farm community has gone up probably about 200-300 percent in valuations it's shifted that burden to them from the state. So that's what we're talking about today, I believe.

**DOUG KELLOGG:** I appreciate your point. I didn't use the language "out of control," and I'm not trying to make a joke.

**STINNER:** I've heard of that, and I mean that and I'm a little bit, maybe, oversensitive to that but I didn't necessarily have to--

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**DOUG KELLOGG:** Senator Linehan, Linehan had a bill last year to limit local administrator pay. I mean, and I'm judging from measures like that, which I think are reasonable. And the fact that you're asking for a significant tax increase from the people of Nebraska that there is a need there that you're saying. So there is-- you're filling some sort of spending. But I did use the language out of control, I'm not here to make that type of judgment other than to alert folks to the fact that there is significant tax increases on the table, the damage that they can cause, and to say that we'd very much like it if the focus shifted more to the spending limitation side. I think most of things you propose, which I mentioned, things that you all have proposed and the Governor has proposed are actually more focused on the limiting side.

**STINNER:** And what we're trying to do is control the shift, the shift over to property tax reliance as opposed to state. That's what we're trying to--

**DOUG KELLOGG:** Right. And your--

**STINNER:** And even up those legs.

**DOUG KELLOGG:** Like this is one of the most complex issues I deal with because you're dealing with, you know, you aren't inherently driving the property tax burden as state officials.

**FRIESEN:** Thank you, Senator Stinner. Senator Briese.

**BRIESE:** Thank you, Chairman Friesen. And thank you for your testimony, appreciate it.

**DOUG KELLOGG:** Yeah. Thank you, Senator.

**BRIESE:** Doesn't, doesn't tax reform or comprehensive tax reform entail the shifting of the burden, typically?

**DOUG KELLOGG:** I don't know if I can answer the typical piece of that. But I think that goes to what I said to Senator McCollister question. I think is very helpful question just to get ATR's stance clear, is that there is room to shift the tax burden. We just don't believe in increasing the tax burden. I don't know if I'd say it's typical. I think that that's completely reasonable to say that you can shift the burden in tax reform.

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**BRIESE:** And if we agree that tax reform entails a shift, implicit in the idea of a shift there's an increase in the burden on one party and a decrease on the other party, correct?

**DOUG KELLOGG:** I'm saying it's implicit, but that can happen. The concern is that we're not just shifting if we're increasing the overall tax burden, and also we're doing so through taxes, specific taxes that concern us. But I think the answer still stands, you can shift the tax burden to avoid a tax increase.

**FRIESEN:** Thank you, Senator Briese. Any other questions from the committee? Seeing none, thank you for your testimony, Mr. Kellogg.

**DOUG KELLOGG:** Thank you all very much.

**FRIESEN:** Neutral. Neutral capacity next.

**SHERRY WOLF:** Good evening, Senators. Thank you for this opportunity to testify tonight. My name is Sherry Wolf, S-h-e-r-r-y W-o-l-f, and I'm the budget director for the city of Lincoln. I have heard the discussion this afternoon about the intention to hold property tax revenue harmless by increasing the tax rate. But I'm going to stick to my original testimony, having not had an opportunity to review that provision yet because I think without specific guidance from the Legislature it could be very difficult for elected officials to take that step of increasing the tax rate. Lincoln is averaging population growth of about 3,700 citizens per year and has grown by over 8 square miles over the past 10 years. During the same time frame the annual increase in property tax revenue has averaged 3.9 percent. Over the past five years the property tax valuation averaged growth of 4.87percent. The ability to utilize this growth is necessary to provide additional infrastructure, maintenance, and services to a growing population and service area. We estimate this amendment will reduce Lincoln's property tax revenue over \$6.5 million while proposed enhancements to the sales tax base are estimated to generate less than \$2 million. That would amount to the equivalent of a 6.5 percent reduction of property tax revenue in a growing city. The potential \$4.5 million reduction in revenue will result in cuts in services; higher property tax rates on the remaining property tax valuation; or shifts to other revenue sources, such as increased fees. Property taxes make up 30 percent of Lincoln's tax-funded revenues. The restricted funds live already poses significant challenges in providing vital services in our growing city. Currently, 75 percent of

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Lincoln's tax-funded revenues are limited to 2.5 percent growth under the restricted funds lid. The tax rate currently of 31.6 cents per \$100 of valuation for Lincoln is 18 cents below the state levy rate limit of 50 cents. Our local elected officials are also under constant pressure to limit property taxes. It's important for municipal, municipalities to maintain diversification of major revenue sources as well, especially those that have a large percent of their budget funded through sales tax, due to its sensitivity to economic fluctuations. Sales tax currently comprises about 39 percent of tax-funded revenues and Lincoln. Property tax and sales tax together generate 69 percent of our total tax revenues. All other revenue sources combined fund less than one-third of our tax-funded budget. Reducing property tax revenue would subject more of our core services to become vulnerable to variances in sales tax revenue due to economic conditions. Lincoln is currently facing a sales tax shortfall of over \$3 million due to slower-than-projected growth in sales tax revenue in our current budget. In addition, over 62 percent of the tax-funded budget consists of personnel costs. Personnel costs are largely determined by the comparability laws under the State Court of Industrial Relations, further challenging cities to balance their budgets while personnel costs increase roughly 4 percent per year. About 56 percent of the tax-funded budget is public safety costs, and the majority of those public safety budgets are for personnel. That pretty much is controlled through the Court of Industrial Relations. So I urge this committee to oppose LB289 and AM1381, which would create a revenue shortfall for Lincoln estimated at \$4.5 million.

**FRIESEN:** That doesn't sound like neutral testimony.

**SHERRY WOLF:** I apologize. I got carried away.

**FRIESEN:** Are you up against your levy lid?

**SHERRY WOLF:** We are not up against our levy lid but we are experiencing more difficulty with our restricted funds lid.

**FRIESEN:** How much, how much-- you talked about sales tax revenue that comes in. What percent of that is attributed to people that come in from outside of Lincoln to shop?

**SHERRY WOLF:** Recently on the quarter-cent sales tax ballot issue that we had that was estimated at about 30 percent.

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**FRIESEN:** So 30 percent of your sales tax revenue comes from outside the city limits?

**SHERRY WOLF:** That's, that's a projection that's been made.

**FRIESEN:** Helps you lower your property taxes here? Any questions from the committee?

**SHERRY WOLF:** Yeah.

**FRIESEN:** Senator McCollister.

**McCOLLISTER:** Thank you, Senator Friesen. Help me understand the 2.5 percent lid on restricted funds. Restricted funds are different than your general funds, is that correct?

**SHERRY WOLF:** Res-- they include our general fund. Restricted funds are property taxes, sales tax, highway allocation taxes, those are the ones that come to mind off the top of my head.

**McCOLLISTER:** Does that 2.5 percent rate great have any flexibility for floods, anything else, big downturn in the economy?

**SHERRY WOLF:** There is an, an exemption for acts of God, natural disasters. I forget exactly what the wording is, but there is an exemption for those types of costs.

**McCOLLISTER:** And you can't increase that with a vote of the people or anything else?

**SHERRY WOLF:** The restricted funds live could be increased by a vote of the people.

**McCOLLISTER:** I see. Thank you very much.

**FRIESEN:** Thank you, Senator McCollister. Senator Briese.

**BRIESE:** Thank you, Chairman Friesen. Thank you for your testimony. Looks to me like you just raise your levy and take care of the problem that this bill could create, correct? You have 18 cents worth of room.

**SHERRY WOLF:** I again, my testimony is based on the amendments that I was able to review before I came in here. So it does not address that discussion that I'm hearing today.

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**BRIESE:** But you're 18 cents below the levy limit, correct?

**SHERRY WOLF:** Correct.

**BRIESE:** Thank you.

**FRIESEN:** Thank you, Senator Briese. Senator Groene.

**GROENE:** So you're concerned it's a 10 percent reduction in, in valuation?

**SHERRY WOLF:** Yes.

**GROENE:** And the business manager from the LPS, you said that you, they have a 7.5 percent increase in valuations this year. I'm sure that reflects the city of Lincoln. So are you planning to lower your levy? Because that's pretty hefty hit.

**SHERRY WOLF:** That will be a decision for the city council and the elected officials to make.

**GROENE:** When it goes up to 7, it doesn't create you a problem at all, does it?

**SHERRY WOLF:** We are a growing city and we have additional services always to provide. It has not been easy to balance our budget with the growth and the valuation that we have experienced.

**GROENE:** When you say 30 percent comes out, is that me and Senator Friesen who live here because we have to? Does that include us or is that just the passers-through.

**SHERRY WOLF:** I'm sorry, sir. Those calculations were made by a consultant that was working--

**GROENE:** Could I get those numbers?

**SHERRY WOLF:** --on the-- I'd be happy to look into that for you, yes.

**GROENE:** And the kids who come from rural Nebraska stay at the university and go out at night, are they considered visitors or, or citizens?

**SHERRY WOLF:** I did not do the calculations for the 30 percent.

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**GROENE:** Thirty percent seems light. Thank you.

**FRIESEN:** Thank you, Senator Groene. Any other questions from the committee? Seeing none--

**SHERRY WOLF:** I do apologize.

**FRIESEN:** --thank you for your testimony. Now, do we have any people that want to testify in a neutral capacity? Neutral? Neutral capacity?

**KIM HEYE:** My name is Kim Heye, H-e-y-e. I am here as neutral, as I believe very strongly that taxes do need to be addressed. I think that we're not going to get anywhere if we don't have taxes. So I believe fully in school districts. If they need money, you better find a way to give it to them. So having said all of that, the reason I am here is I am not a homeowner, I'm not a landowner, or a farm owner. My child is grown, so I can't say I'm here for an educational purpose. However, I feel any additional stress that's put on school district is very wrong. These people are up against way too much as it is. I am here because alcohol, it needs to be taxed the same as cigarettes. It is a very discriminating language that goes on. There are percentages that people bring about with their health and all of these. I-- that other young lady said that, that's fine. However, I can share with you that I spent many years making chemotherapy for cancer patients. There were just as many chemotherapy patients were those who smoked and for those who did not. I worked in a hospital for a great time. I took care of many patients at their bedside and with their families. There was no percentage greater than the other. I just worked it. People can do numbers all they want to, but it is by my hands that I saw it. Alcohol causes a lot of accidents on the road. You have drunk drivers that kill family members. You lose entire families, yet, alcohol is never addressed. You want to put it on the back of the smokers? And the thing is, is I don't smoke, but it's not right when alcohol is not ever addressed. Why? I guess that's the question I have for our leaders of Nebraska. Why? I mean, we got, we have so many people coming into our state who visit us and they come for games and they can buy a lot of alcohol. They get in hotels and cause all kind of problems. You have accidents on the road back and forth to Lincoln to Omaha, but it never wants to come up and I don't understand why. Until it happens to a person in their own family, they don't give it any respect so.

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**FRIESEN:** Thank you for your testimony. Any questions from the committee? Seeing none, thank you. Neutral?

**AL DAVIS:** It's a battle for the front row. Good evening, Senator Linehan and members of the Revenue, Education, and Retirement Committees. I am Al Davis, A-l D-a-v-i-s, here today representing the Independent Cattlemen of Nebraska. I want to first acknowledge the courage and hard work which has been put in by the Revenue Committee to address Nebraska's challenging property tax crisis. Under Senator Linehan's leadership the committee is finally giving serious consideration to the problem of devastatingly-high property taxes which impact agriculture so negatively. The variety of reform bills put forward by members of this committee is encouraging and commendable and demonstrates that to recognize that property tax reform is really the leading issue for the 2019 legislative body. To refresh your memory, the University of Nebraska provided data two years ago showing that the average Nebraska farmer paid over \$22,000 in property taxes. In California, that figure was \$13,000, and Iowa ranked third at \$9,000. Those of us in agriculture are competing against farmers and ranchers across the nation, and so the high taxes in Nebraska reduce the amount of capital we can reinvest in our business. In addition, commodity prices are lower today than they've been for decades and many producers are trying to dig out from devastating floods and blizzards. Operating loans are not being renewed and we are on the cusp of another large exodus of young people from the farm. So if I can feel so strongly about property tax reform then why are we testifying here in the negative capacity-- in the neutral capacity? Because the current bill simply doesn't have the legs to carry it through passage and because many other good ideas brought forward by other members of the committee are not represented in this bill today. There were aspects of the bill which doom it once it hits the floor. Caps and spending limitations imposed on the big schools, no matter how well-intentioned, are opposed universally by schools with increasing enrollment, and this body is dominated by those senators. ICON is strongly opposed to confiscation of the Property Tax Credit Fund as a school funding mechanism. Opposition to that part of the bill will surely come from other taxing entities who are part of the property tax problem themselves. The existing Property Tax Credit Fund is a fair and equitable way to give relief to all property owners in Nebraska. But this bill may actually increase the tax asking in some parts of Nebraska once the Property Tax Fund is recycled, again creating winners and losers. Likewise, reducing the

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value of residential and commercial property by 10 percent and ag land by 13 percent will drive up levies everywhere in a most uneven manner, depending on the percentage of total valuation these properties make up. ICON supports the use of sales taxes to meet the obligations with the bill but we favor the elimination of other consumer sales tax exemptions, as do both OpenSky and the Platte Institute, with the potential to lower the three-quarter cent requested in the bill to half a cent. Income tax surcharges on high earners should also be considered as part of the tax shift because income taxes are the least regressive tax. The modest increase in the cigarette tax should be doubled. And the committee has ducked increasing the tax on alcohol, despite the fact that alcohol and its overconsumption contribute heavily to the local law enforcement budget, a cost borne by property owners whether they drink or not. Revisit the issue, choke down on your prejudices, and compromise. Visit with colleagues outside this committee and build a broad coalition to finally fix the problem. Thank you.

**FRIESEN:** Thank you, Senator Davis. Any questions from the committee? Seeing none, thank you for your testimony.

**AL DAVIS:** Thank you.

**FRIESEN:** Neutral capacity?

**DUSTIN ANTONELLO:** Good evening. My name is Dustin Antonello, it's spelled D-u-s-t-i-n A-n-t-o-n-e-l-l-o. The Lincoln Independent Businesses Association is testifying today in a neutral capacity on LB289 as amended by AM1831. LIBA believes there are many provisions in this bill that will help alleviate the property tax burden for homeowners, businesses, and farmers. Lowering valuations by 10 percent on residential and commercial properties as well as AG land will result in immediate property tax relief for all Nebraskans. This will have an especially meaningful impact during a time where property values have skyrocketed in Lincoln over the last few years. LIBA also supports the additional school aid that school districts will receive as a result of this bill. It is no secret that school districts throughout Nebraska are too reliant on property taxes as a source of revenue. This bill not only provides more in school aid from the state but it also protects property taxpayers by lowering school districts' maximum property tax levy and capping increases to school districts' year-to-year property tax revenue spending to the consumer price index. However, we believe the bill should go even further to protect

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property taxpayers by extending the CPI spending lid to all political subdivisions. LIBA also remains concerned that this bill will impose sales taxes on a number of service industries that are predominately comprised of small businesses. These include moving and storage services, plumbing, HVAC, and veterinary care. Taxing these services will put a significant burden on home business and pet owners, especially since the costs associated with these services, services can easily run in the thousands of dollars and often are unplanned expenses. In addition to raising the sales tax burden, AM1381 removes the exemption on personal property taxes for the first \$10,000 in tangible personal, personal property expenses. The personal property tax not only costs businesses financially but it is also costly in terms of the time and effort necessary to complete and file the appropriate tax returns, which are filed individually in each county where a business is-- where a business owns personal property. Many of Nebraska's nearby states do not impose any tax or tax a small percentage on personal property, including Iowa, Illinois, Ohio, South Dakota, North Dakota, and Minnesota. LIBA appreciates the Revenue Committee's efforts to reduce the property tax burden with this proposal. We support many elements of this bill but we remain concerned about how the combination of sales and personal property tax increases will affect the bottom lines of small businesses. Thank you and I'd be happy to answer any questions.

**FRIESEN:** Thank you, Mr. Antonello. Any questions from the committee? Senator McCollister.

**McCOLLISTER:** Thank you for your testimony. You're in favor of the property tax reform as, as you indicated, correct?

**DUSTIN ANTONELLO:** Well, as I said in my testimony, I think there are there are very good elements in this bill. And we support some of the main elements, including the lower of the valuations and, and the, the lid restrictions for school districts.

**McCOLLISTER:** Yeah, like the increased aid to schools?

**DUSTIN ANTONELLO:** Yes, we do like that. And we, you know, we've gone over the numbers and we feel confident that LPS would still generate enough funding.

**McCOLLISTER:** How do we fund that?

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**DUSTIN ANTONELLO:** How do we fund the additional--

**McCOLLISTER:** How do you propose this committee funds that increase aid to schools?

**DUSTIN ANTONELLO:** Well, I think that's the million dollar question. I think obviously we've heard throughout testimony tonight that cutting spending is one of those options, also trying to increase economic growth throughout Nebraska. I think we're, we are willing to concede that there is room for some other revenue increases via taxes. The sales tax increase is certainly something that we'd be willing to work with the committee on. We just have concerns about the picking of winners and losers in terms of some services we're going to tax, others we're not.

**McCOLLISTER:** So you would rather have us increase-- eliminate all the sales tax exemptions and make it more uniform?

**DUSTIN ANTONELLO:** I wouldn't say that because I wouldn't want-- I guess what I'm most concerned about is that when you're, when you're removing these exemptions there are certain services that lose, others that benefit. I think it would almost be fairer for there to be a general increase in the sales tax, maybe not to the three-quarters of a percent that's being proposed by this bill. But as long as, I mean, you look at some of the contractors that are being that would be taxed in this bill and you've got other contractors who would not be taxed and I just don't think that's a fair way to go about it. I just don't think picking winners and losers on who we're going to tax and who will not is not the right approach.

**McCOLLISTER:** Thank you. Thank you, Senator McCollister. Any other questions from the committee? Seeing one, thank you for your testimony. One last neutral testifier.

**KEN HERZ:** Good evening, Senator Linehan and, and Senator Friesen and members of this committee. My name is Ken Herz, K-e-n H-e-r-z. My family farms and ranches near Lawrence, Nebraska. I currently serve as president of the Nebraska Cattlemen, and I'm here today on behalf of Nebraska Agricultural Leaders Working Group to testify in a neutral capacity to AM1831 to LB289. The Ag Leaders Working Group consists of elected leaders in Nebraska Cattlemen, Nebraska Corn Growers Association, Nebraska Farm Bureau, Nebraska Pork Producers, Nebraska Soybean Growers Association, Nebraska Dairy Association, Nebraska

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Wheat Growers Association. Thank you for this opportunity, for listening to the concerns of Nebraskans. You have made fixing the property tax issue a priority and have elevated this issue to the level of consideration it deserves. Nebraskans appreciate it. Nebraska's agricultural leaders believe it's critical this body work to lower property taxes by better balancing our tax system, primarily by having the state assume a greater role in funding K-12 education. To do this, we agree with the bill's sponsors and proponents that we must broaden the sources of revenue used to fund schools. The Ag Leaders has handed you information related to the increasingly disproportionate impact property taxes are having on Nebraskans, especially those in agriculture. We have been before the Revenue Committee many times this session with the same message: The situation is critical and the time for property tax relief is now. There are many components contained within, in Am1381 supported by the Ag Leaders Working Group, including increasing the sales tax rate, broadening the sales tax base. We also support mechanisms which provides state funding for all K-12 schools statewide and appreciate that this amendment seeks to level the playing field. We further support lowering valuations of real property to help stabilize the imbalances that have occurred, especially with the past 10 years. However, a significant priority of our group is to keep intact the Property Tax Credit Program. We respect, we respectfully request that the committee not repurpose the dollars in that fund to pay for this plan until we know exactly how the newly-structured program will operate. The bill contains a number of provisions to broaden the sales tax base but we suggest the committee consider that elimination of additional, additional exemptions for other revenue-generating operations, such as those outlined in Senator Friesen's LB497 and Senator Briese's 4-- LB508. Our organization has been clear that we are willing to support raising revenue to fund property tax relief, understanding such increases will affect all of us, including farmers and ranchers who are consumers of goods and services. The Ag Leaders Working Group appreciates the time you have dedicated carrying the plans and ideas brought before you this year. We ask you to consider these changes and advance the bill to the full Legislature.

**FRIESEN:** Thank you for your testimony. Any questions from the committee? Senator Crawford.

**CRAWFORD:** Thank you, Vice Chair Friesen. And thank you, Mr. Herz. I wondered if you would just explain on the back side of the, of the

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sheet that you gave out to us, what this means when it says "effective tax rates?"

**KEN HERZ:** The effective rate of tax rate in agriculture is, that is something that is, was put together by Jay Rempe of the, of the Nebraska Farm Bureau. And this shows the effective rate of what ours is compared to the neighboring states.

**CRAWFORD:** This is after you take out deductions and--

**KEN HERZ:** Yes. I can't answer that for sure but I think that's what it is. Yes.

**CRAWFORD:** Thank you.

**FRIESEN:** Thank you, Senator Crawford. Senator Brewer.

**BREWER:** All right, if we go to your chart here, which this is kind of a nice, quick reference. So in the last, or from 2007 to 2017 residential went up 30 percent; ag land, 150 percent. Is that right? Just the color chart here.

**KEN HERZ:** Color chart here?

**BREWER:** No, flip it over.

**KEN HERZ:** I got this one right here.

**BREWER:** So that's over a 10-year period. That's the--

**KEN HERZ:** That's the 10-year period, yes it is.

**BREWER:** OK. And you drop down just below that it says, many other states treat agricultural land with more favorable, much more favorable than Nebraska. Showing the 75 percent, that's taxable value. South Dakota is an 85, but I assume that's because they have no income tax there?

**KEN HERZ:** I don't know the reason why that is. But I can't speak to that.

**BREWER:** All right. That's all I had, thank you.

**KEN HERZ:** But we can get you the answers to those.

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**FRIESEN:** Thank you, Senator Brewer. Any other questions from the committee? Seeing none, thank you very much for your testimony. Next we're switching to opponents. Welcome.

**THOMAS AIELLO:** Thank you, Chair Linehan and members of the committee. My name is Thomas Aiello, T-h-o-m-a-s A-i-e-l-l-o, and I'm the policy and government affairs associate for National Taxpayers Union. On behalf of NTU, I'm here to express our concerns with AM1381. While we commend the laudable intentions of the amendment, we believe this legislation simply amounts to a shifting of the tax burden while failing to address the structural challenges that have fueled higher taxes. My testimony today will focus just on two of the main challenges with the amendment. First, as we've heard previously, is the sales tax increase as the main funding mechanism. It's a 14 percent tax increase for consumers across Nebraska. These taxes are extremely regressive as the burden falls heaviest on lower-income, income consumers. The rate would be higher than most of Nebraska's neighbors, which is a concern for small businesses who operate on the border of Nebraska. We agree that the base, the sales tax definitely need to be broadened across the base. So your bill definitely addresses some of those concerns and we're happy to see it, but we don't think it goes far enough. Every exemption should be laid on the table and see which ones are deserving of the exemption. By doing this you create a more stable sales tax stream of revenue and you get government out of the business of picking winners and losers through tax policy. Second, we urge the Legislature to avoid increasing tobacco taxes. AM1381 would increase the cigarette excise tax by 33 percent. For a pack-a-day smoker this amounts to a 131 annual tax increase. And while it's true that cigarette tax increases usually correspond with a short-term bump in revenue, after a few years the revenue drops precipitously due to smuggling or declining smoking rates. A study by NTU's research arm, NTU Foundation, found that between 2001 and 2011 70 percent of all tobacco tax hikes resulted in lower than anticipated revenues. To that end, our study found that 66 out a 96 tobacco tax hikes were followed by additional tax hikes within two years to cover the shortfall. Using unstable revenue sources coupled with higher taxes on working class households is not a sensible way to fund property tax reductions. Additionally, simply diverting revenue to the Property Tax Credit Fund does not solve the structural problems associated, associated with property taxes and it would just place a Band-Aid on the problem. As in the case with most proposed tax swaps, taxes are shifted around to other taxpayers. Some

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benefit from property tax credits while others pay at the checkout counter. Most concerningly, AM1381 disproportionately places the burden on lower-income consumers in order to provide relief for landowners who are by and large well, more well-off. The scheme is irresponsible and regressive twice over. And I'm happy to answer any questions you may have.

**FRIESEN:** Thank you. Are there any questions from the committee? Seeing none, thank you for your testimony.

**THOMAS AIELLO:** Thank you.

**FRIESEN:** Welcome.

**CHERYL LOGAN:** Thank you. Good evening. Good evening, Senator Linehan, Senator Kolterman, and Senator Groene, and members of the Revenue, Education, and Retirement Committee. My name is Cheryl Logan, C-h-e-r-y-l, Logan, L-o-g-a-n, I'm superintendent of the Omaha Public Schools. Let me begin by saying that the Board of Education and I, as well as school administration is very appreciative of the efforts that Senators Linehan, Kolterman, and Groene have made throughout this process to assist OPS as we deal with our unfunded pension liability. OPS remains committed to providing all of our employees with retirement benefits they are promised while focusing on our primary, our primary task of educating 53,500 of our state's children with the highest need. While we agree that additional state resources should be included Nebraska's school funding formula, we cannot support at this time an approach that appears at this point to have a negative impact on OPS and our students. First, AM1381 has a destabilizing effect on funding for OPS. Right, wrong, or indifferent, property tax is the most stable and predictable tax source. Prior to the adoption in 2016 of LB1067, which repealed the common levy, the common Levy, OPS's budget was funded 45 percent by the state aid and 55 percent by property tax. Under Am1381 it appears that OPS's budget will be funded more than 60 percent through state aid. As we all know, TEEOSA consumes a significant portion of the state budget. Because of that the Legislature has historically looked to cut TEEOSA whenever it needed help to balance its budget, which creates great risk for our schools and our school children. Second, while OPS appears to benefit from some of the changes in the TEEOSA and the six-cents levy authority for retirement plan payments, those gains do not appear to offset the losses resulting from the reduction in the levy, especially when that is coupled with a 10 percent reduction in property

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valuation. Third, AM1381 also eliminates the averaging adjustment. OPS spends significantly below the state average per pupil. OPS is also at the maximum levy. As such, when it has spending authority, OPS cannot access additional revenue. That is why the averaging adjustment was offered in the first place, so that districts with high needs without access to resources for each student could generate additional revenue through state aid. While we appreciate that we are a small piece of the enormous undertaking that is AM1381, the amendment as a whole is something we cannot support based on the information we currently have available to us. Thank you for your time, and I would be happy to answer any questions.

**FRIESEN:** Thank you, Ms. Logan. Are there any questions from the committee? Seeing none, thank you for your testimony.

**CHERYL LOGAN:** Appreciate it, thank you. Have a nice evening.

**LARRY DIX:** Good afternoon, members of the Revenue Committee, Education Committee, and Retirement Committee. My name is Larry Dix, L-a-r-r-y D-i-x, an executive director of Nebraska Association of County Officials. Appearing today to discuss really one component contained with LB289, and that is the component of the valuation decrease. Certainly I appreciate the comments made earlier by Senator Groene, also, Senator Linehan, thank you for your comments at the opening talking about we need to maybe look at this particular piece of it. What I'm handing out to you is a list showing all 93 counties and where they were, where they're at currently on their levy rate. Showing you which ones under LB289 where that levy rate would increase to if they were to have a 0 percent budget, where it would increase if they had a 3 percent increase, and surprisingly if all 93 counties would reduce their budget by 3 percent they would still have a levy increase in order to maintain what they're currently doing. As you know, a majority of the things that counties do are mandated by the Legislature. There are certain things we just have to do. And so when you look at that and when you analyze that you'll see, if you'll look at Deuel County. Deuel county would have to go to 55 cents in order to just maintain a 0, 0 budget. Now that will put them over their 50-cent levy limit. And I want to address a question Senator Groene had about adjusting that, and Senator McCollister, I think you had a question on the TEEOSA formula that I'd like to address. But in addition to that, we believe doing the analysis and the modeling. About five other counties are gonna be above 45 cents. So with, with what we're proposing here, the counties, a majority of counties can raise their

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levy rate. And the reason why is because when valuations really, really increase I believe counties did an excellent job in reducing their levies, and that's indicated on this sheet. And so now we're going to ask the Legislature to help us in a difficult time when it's going in the other, other direction. One of the things that we believe that when you do this we're going to lose about \$28 billion of value statewide. That's a big number when we, when we reduce that. But that is based on the 2018 numbers. And so with that I believe that we want to take a look at it. We know there are some things in this bill that we believe, we know the Revenue Committee has worked very, very hard on. This is one component we have a concern with. We're happy to work with the committee to try to come up with an answer. But our limit is constitutional, which is a little bit different, and I'll explain that or read that portion of the constitution to anyone if they wish. Thank you.

**FRIESEN:** Thank you, Mr. Dix. Any questions from the committee? Senator Bolz.

**BOLZ:** Thank you very much for your testimony. I was listening but I'm, I'm afraid I didn't-- I either didn't hear or I didn't follow what you were saying about the decrease not resulting in, actually resulting in a levy increase. Can you just cover that for me again?

**LARRY DIX:** Right.

**BOLZ:** I just didn't--

**LARRY DIX:** So if we're decreasing, in this bill we're decreasing ag land value 13 percent. We're decreasing residential, commercial, industrial 10 percent. OK? So that's a decrease in our tax base so to speak. Counties could, if you look at the column, it will show under LB289, which is about the fifth column over, it would show what the counties would have to raise their levy to in order to just maintain a 0 percent budget. So if in the future years they didn't increase their budget at all they would have to raise their levy in order to just get the same amount of dollars that their current, currently receiving today.

**BRIESE:** Thank you for walking me back through that.

**LARRY DIX:** Yes.

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**FRIESEN:** Thank you, Senator Bolz. Senator Briese.

**BRIESE:** Chairman Friesen. Thank you for your testimony.

**LARRY DIX:** Sure

**BRIESE:** You alluded to constitutional issues accompanying a fix here. What are your thoughts on that?

**LARRY DIX:** Yeah. Two things on the constitutional side. One, the counties lid, the 50-cent lid for counties is not something that the Legislature can hold a session on and change. Article VIII, Section 5 states: County, county authorities shall never assess taxes in the aggregate of which shall exceed 50 cents per 100 dollars of taxable value. So that's in the constitution. So I appreciate Senator Linehan and Senator Groene, you know, wanting to work on that, because I think we do have to. But the counties is a little bit different than the schools, than the community colleges, than the NRDs, and things like that. Ours is a constitutional limit. That's why we would ask the committee to take a hard look at, I think Senator Linehan or maybe Senator Groene was answering the question, in regards to using the valuation within the TEEOSA formula in order to make that adjustment. We would ask the committee to take a hard look at that just to verify if that will raise a constitutional issue. Maybe it will, I'm not an attorney. We have attorneys on staff that don't necessarily think it will. But I think if you have, you can have multiple attorneys you're gonna have multiple opinions, which I understand. But we'd ask the committee to take a hard look at that. That would help us out from the, from the county perspective because we have so many folks that are so close to that levy limit.

**BRIESE:** Thank you.

**FRIESEN:** Thank you, Senator Briese. Any other questions from the committee? Seeing none, thank you for your testimony.

**LARRY DIX:** Thank you.

**RENEE FRY:** Good evening, senators. My name's Renee Fry, R-e-n-e-e F-r-y, I'm the executive director of OpenSky Policy Institute. In the interest of time I'm going to abbreviate my comments. While we sincerely, sincerely appreciate Senator Groene's and Senator Linehan's efforts to raise revenue and provide more state aid to schools to reduce property taxes, we know that they have been countless hours

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working on this package, unfortunately, unfortunately we do have to oppose the amendment to LB289 as there are many concerns we have with the bill, despite the fact that we agree with the basic premise of the amendment. Here are our main concerns. One, the proposal doesn't go far enough to broaden the sales tax base. Broadening the tax base is sound tax policy and should preempt efforts to raise the tax rate. Two, increasing sales tax, state sales taxes by three quarter of a cent. While we support broadening the sales tax base to include more services currently untaxed, we do not support increasing the rate so high. We could support a half-cent increase if it's accompanied with an increase in the EITC as the sales tax falls heaviest, heaviest on low-income families. Three, the revenue raised should include some income tax revenue to avoid being so regressive, such as the revenue included in LB661 and the franchise tax. This is important to ensure that these tax changes don't hit low and middle-income families the hardest. Four, reducing the valuation of agricultural land for property tax purposes to 65 percent of value, and residential and commercial to 90 percent for the reasons that Mr. Dix just explained. So I won't reiterate those. However, we would support reducing valuation within the TEEOSA formula. Number five, restrictions on school spending and growth of TEEOSA over time. Number six, time foundation aid to sales and income tax both-- growth. Both of these were aptly explained by Miss Standish of LPS, so I won't waste your time going through those again. We do believe that there are components of various bills that could be put together in a way to pass property tax relief this year. We supported both Senator Briese's LB314, Senator Crawford's LB614. We also supported the sales tax base broadening in Senator Briese's LB508 and LB507. There are certainly components and LB695 and LB497 that we believe are workable and would have a lot of advantages over the current amendment. So again, as drafted, we believe that the concerns outweigh the positive in this bill. But we appreciate all your efforts moving forward on property tax relief, and we do think within all of the bills that have been introduced that there is a path that could get us to 33. With that, I'd be happy to answer questions. Thank you, Ms. Fry. Any question from the committee. Senator Groene.

**GROENE:** This room is full of people all have their individual path. Are you magic that if we match your path we'll get it passed?

**RENEE FRY:** So I've had a lot of conversations with various senators and I think that there is more common ground than there is--

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**GROENE:** If you increase spending, I'm out.

**RENEE FRY:** So this--

**GROENE:** So you just lost one.

**FRIESEN:** Mike.

**RENEE FRY:** Yeah, I don't think you need to-- I think a revenue-neutral package can go. I don't think it has to reduce-- or has to increase school spending. Schools already have limitations--

**GROENE:** Some of those bills you quoted that you supported increased spending by quite a bit.

**RENEE FRY:** Well, I did cite LB695 and LB497 introduced by you and Senator Friesen, so I do think that there are elements in all of these bills that could get the support needed to get to 33. I'm not saying it's gonna be easy. I think it's a difficult path. But I think that there is a workable, workable path there.

**FRIESEN:** Thank you, Senator Groene. Any other questions from the committee? Senator McCollister.

**McCOLLISTER:** Thank you, Senator Friesen. Do you see any constitutional issues of staying inside or outside the TEEOSA formula?

**RENEE FRY:** Within the formula, absolutely not. It's a formula. So if you reduce taxable value of property within the formula, it's just part of the formula. So I don't think that that provides any sort of constitutional issues because it's a mechanism within the formula. Outside the formula, I think as long-- I mean, you have to treat residential and commercial the same. You can't treat those two differently. So I don't know exactly. But we've had bills that have treated agriculture differently outside of the formula. And I think as long as you're treating residential and commercial the same, you're probably OK constitutionally. I do think that there are ramifications for local governments from doing that, but constitutionally, constitutionally I'm not sure that there would be an issue there.

**McCOLLISTER:** Thank you, Ms. Fry.

**FRIESEN:** Thank you Senator McCollister. Any other-- Senator Bolz.

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**BOLZ:** I appreciate all the all the work that's done on the Revenue Committee, and so I guess I just ask for your patience as I ask this question. As someone who's not been on the Revenue Committee, I haven't heard all of those bills. And I would be curious of those things that you've cited and from your conversations with senators, what do you think those common ground points are? I'd love to know those things.

**RENEE FRY:** Yeah. Thank you for the question. I'll start on the revenue side. Senator Briese had two bills, LB507 and LB508. These were very expensive services, tax and consumer services. He was very careful to limit taxing business inputs, which I think universally is agreed that we want to avoid tax and business inputs. I've also heard a lot of comments about the current bill sort of picks and chooses, right? It's not broad base modernizing the tax code. But Senator Briese has two bills that would be very, very broad-based. So I've heard people say, why are you picking on me, why are you picking on this particular industry? It seems what I've heard is that there would be less resistance if it was actual modernization and very broad based. So I'd start looking at those two bills. Think you could get to about \$200 million in revenue that you wouldn't have to raise from increasing the sales tax rate if you did that. There are definitely, you know, from tax policy you want to broaden your base, right, and lower your rate. And so this is definitely an area I would look at those two bills for that base broadening and go as broad as possible while avoiding business inputs. In terms of components, I think Mr. Welsch talked through some of the components. There's been a lot of conversation, up and listening, talking with various senators on the committee, off the committee. One concern I think that's come up in this particular hearing is how confusing this particular bill is. It's been a challenge for us. We have Connie Knoche on staff who knows TEEOSA inside and out and she has been studying this diligently, having several conversations with Mr. Wilson from NDE. And she's tried to explain it to me several times, and I know TEEOSA better than many people and it's still over my head. And so I think something as confusing as this is, we'll have a different, difficult time on the floor because it is just very difficult to model and to even wrap your head around. But that's not to say that there aren't components in LB695 which is Senator Groene's bill-- lowering the LER certainly is something that Mr. Welsch explained reduces-- increases funding for equalized districts. And so what he described was the combination of reducing taxable value of ag land, lowering the LER and, I'm trying to

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remember the third part, and then basic funding component, which Senator Friesen had introduced. That combination, and it doesn't have to be that combination, but that's a way that funding goes to all districts. It goes to equalized, nonequalized, and also brings more school districts into equalization who have fallen out of equalization over the last five years. I think that there are other combinations that could work. That's one that seems to be simple. It's scalable. So part of the challenge is as the revenue target continues to change then that could create additional complications in terms of hitting a particular mark. I've also heard concerns raised by the committee, what if the revenue doesn't come in? You know, what if it's not exactly right? Doing something else that would be scalable. You could also, and I know that this isn't popular, but you could put it into the Property Tax Credit Program, wait a year or two, see how that works out and come back and do the K-12 funding mechanism later. That at least provides some assurances that we know exactly what that revenue target looks like and gives us an opportunity to make sure that we are doing all of the pieces right. Because this is very, very complicated. This is complete total tax reform. And, and there are lots of opportunities for sort of missteps. But there's been great thinking in the Revenue Committee, by the Revenue Committee members. I think there's lots of great ideas on the table. And so I think it's--

**BOLZ:** Well, thank you for your answer. And thanks for your patience Revenue Committee members, I know you've heard that before.

**FRIESEN:** Senator Pansing Brooks.

**PANSING BROOKS:** Thank you for coming in here. When you talk-- I had a question with the Department of Education person and he did discuss I thought, I mean, he tried to explain it but it was very complicated. And for you to say that it's complicated for you and for Ms. Knoche, who actually was the person who actually had a primer for me when I ran for office originally to begin to try to understand TEEOSA and school funding. And she did a really good job. And actually, the book that you all prepared on school funding, which was about four years ago as well, has been my go-to book. So if you're all finding this complicated, it's complicated. And to me, that is not-- when we hear about how complicated TEEOSA is and now all sudden we're going to do these things, I just don't get really. So I'm having trouble trying to figure out, you know, we've ought to be able to find-- and I know a lot of people worked hard and really care and have worked really hard and on this. But it's, when it's becoming more complicated it's, it's,

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it's discouraging. And I appreciate the discussion about broadening the tax base, not expecting people who are in poverty and people who are lower-income to handle and be the bearers of the property tax issue. So I will continue to say this and raise that hue and cry. And you can all be sick of it, but I'm listening to all the stuff on the property taxes on people that aren't necessarily in my district. I've moved a lot in four or five years. But you all must also hear my hue and cry about the people who are in poverty who are really struggling in our communities. And expecting them to bear this regressive tax is very difficult for me and that will be very difficult for us to move forward on that issue.

**RENEE FRY:** Do you mind if I--

**PANSING BROOKS:** Yes.

**RENEE FRY:** I don't know that it was question.

**PANSING BROOKS:** My question, what do you think about that?

**RENEE FRY:** Thank you, I will keep it short. And I hope that I didn't make Senator Groene upset. I know he's worked very, very, very hard on this. It's very complicated. And he is put in countless hours. But when we testify and when we look at bills, one of the things that we'd like to lift up are unintended consequences. And we talk about that a lot, especially those few in the Revenue Committee are well-aware, and Appropriations we talk about it as well. And so the amendment, there was a discussion. The amendment that was filed that we all did our analysis on, it would have resulted in 23 school districts losing revenue. And so there was apparently an amendment that is being suggested to this amendment that would fix that. But again, that's our concern is that we keep-- needed to make adjustments to it. And there's a lot at stake, and I would just want us to make sure that it's been studied and analyzed and that, that all of the school districts that have people that are much, much smarter about TEEOSA than I am have an opportunity to look at it. We've started to analyze the impact on taxpayers. We're finding very, very disparate impact on taxpayers, where some are seeing property taxes go up, others are seeing property taxes go down. It doesn't appear to have any sort of consistent theme to it. And we just haven't had enough time to really, I mean, we've had a week and that's pretty much all we've been doing is trying to look at what the impact is at the school district level and the taxpayer level, and we're still struggling to figure it out

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and be confident. So we haven't released our taxpayer data because I'm not 100 percent confident that we have it right, and we have to make sure that we have it right. And because we give you data so that you can make informed decisions. And so I just think that there's-- we really need to understand what the impact is and--

**PANSING BROOKS:** Thank you.

**RENEE FRY:** It's complicated.

**FRIESEN:** Thank you, Senator Pansing Brooks. Any other questions from the committee? In your modeling, when you're looking at how different schools are impacted, are you also looking at the loss of the allocated income tax portion?

**RENEE FRY:** Well, so we have, so Connie has been looking at, as I understand it, that the models that have been provided by NDE. So that would be accounted for presumably. I do not know if the models that you have account for the loss of valuation outside of the formula or not. So we haven't been provided any of the data, we just have PDFs, so it's hard for us to know exactly what's in there.

**FRIESEN:** OK. Any other questions from the committee? Seeing none, thank you very much for your testimony. One more opponent and then we'll switch to neutral. Welcome.

**BRUCE PETERSEN:** Thank you. Clearly this was a complicated issue from all sides. I'm gonna-- my name is Bruce Petersen. I'm a vice president of finance for Electronic Contracting Company here in Lincoln. I'm testifying today on behalf of Mechanical Contractor Association of Omaha; the Plumbing, Heating and Cooling Contractors Association of Nebraska; the Associated Builders and Contractors, the Cornhusker Chapter; and the Associated General Contractors of the Nebraska Building Chapter. And specifically we're opposing the amendment or the portion of the amendment, AM1381 that's looking to start taxing plumbing and heating and air conditioning, about labor basically. And we had testified earlier, in earlier versions of this bill. As a contractor [INAUDIBLE] proposal was to start taxing all labor services, and Nebraska did that about 10 years ago. And from an administration side, because I was the one at our company that had to deal with it, it was very confusing. And I want to draw your attention to the current state of sales tax in Nebraska. Contractors have three options that they can choose from already. And my concern is that with

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the piecemealing of one industry within a contracting industry, it is the first domino and it's going to creep into other sections of the contracting industry. And in the interim time it's gonna be so confusing to determine what's taxable and what's not because electrical won't be, but you have HVAC contractors that do electrical work in this part. So when they provide a proposal, you know, how are they going to price that out? How are they going to be compliant with the tax law? And these are some of the headaches that really aren't allowed for in this amendment. And there's, there's no provision to address what happens to the contracts that are already signed. Contractors typically accrue use tax on the cost of the materials. This would be a change to now the whole contract is taxable. And after an end users sign a contract and you go back to them and say, well, that's changed, now you're going to owe potentially 7.25 percent on your \$100,000 contract, that's a tough pill to swallow. And we're gonna be the ones put in that position to have to deliver that pill. So I'd be happy to take any questions with regard to this.

**FRIESEN:** Thank you, Mr. Petersen. There any questions from the committee? So I think earlier I think there was a mention that it would be on repairs and not new installations, or was that, was that only heating and air conditioning?

**BRUCE PETERSEN:** Well, repairs and renovations. And so that's a sticky wicket too. What constitutes a renovation is not really defined here. Some states have tried to define it by a new foundation or the square footage, and if you, if you have a system like, like a fire alarm system and you renovate a building and add a new portion then you got to split the project because the new renovation would be exempt and the existing building would be taxable. That happens in Kansas. And my concern is we're headed down that road in Nebraska to an impossible set of what ifs. And how do you treat that from a tax perspective? And if you get audited, chances are much better that you're gonna end up on the wrong side of the audit and owe taxes and penalty and interest for three years when revenue couldn't provide any guidance on how each particular situation would apply. And that's going to be a long time coming from the Department of Revenue because there are so many different situations that come up. And so when you try and carve out one sliver of the construction industry you're going to have all sorts of problems because they do more than one trade a lot of times, and that's going to, it's gonna be bracket creep or construction trade creep. What happens next year or two years when your revenue doesn't meet expectations? And you're going to add electrical services, gonna

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add, you know, carpentry services? So for that reason we're, we're not in support of this amendment.

**FRIESEN:** Do you ever run into projects now where you have to keep track of things separately and bill some things taxable and some not?

**BRUCE PETERSEN:** Well, can you repeat the question?

**FRIESEN:** Do you run into things now that you're doing where you have to bill or figure the bill separately because some things are taxes are taxable, some are not?

**BRUCE PETERSEN:** Yes, and it's very, a very cumbersome process. In our industry a lot of times we'll bid multiple systems, like a fire alarm, and audio visual, intercom, telephone system, closed-circuit television. Some of those systems are taxable, some of them are not. What we have to do with our systems, we provide the customer a quote, and if they take the whole thing and we've got to pull out the taxable systems and assign them a different job number, treat them differently for tax purposes. And it's a little bit like taking a watermelon down a snake. It's very complicated. And this, this proposal, while it doesn't affect my business, we're in the electronics business, it's going to be a headache for plumbing and HVAC contractors. And what I foresee coming down the road is eventually it will affect us and the electronics industry and the electrical industry and carpentry and all of the trades.

**FRIESEN:** Thank you, Mr. Petersen. Any other questions from the committee? Seeing none, thank you for your testimony.

**BRUCE PETERSEN:** Thank you.

**FRIESEN:** Next, we're going to switch to neutral.

**TERRY MADSON:** My name is Terry Madson, I'm from Nelson. It's-- excuse me, Terry, T-e-r-r-y M-a-d-s-o-n. I'm neutral on the bill, although there's a lot of things to like. And it, the farmer in me likes very much that we're trying to get the, get the assessment part rolled back a ways. The old person in me doesn't like the idea that pretty soon my home maintenance costs will be taxed, and so I'm kind of glad that you all have the problem of sorting it all out instead of me. But I do have a concern. And it relates to something nobody has talked about yet, and it's called the nameplate capacity tax. It shows up on page 6. And basically what it amounts to is that in this state right now if

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you have a renewable energy project you pay \$3,518 per megawatt of nameplate capacity in lieu of property taxes. And so using the example of about a \$3.3 million wind generation windmill turbine, that gives you about \$8,795 that the owner of that pays, excuse me, in lieu of property taxes. I visited with my county assessor and asked what would happen if I would start an enterprise. And it required me to build up \$3.3 million, let's say steel building, for the sake of an example. In my county, my tax bill on \$3.3 million worth of assets is \$38,800 and change. And so if we compare, let's say \$8,000 to the \$38,000 in taxation, there is a \$30,000 disparity between what I'd pay and what the renewable facility would pay. I've heard testimony that looks like we're at 800 turbines with another couple thousand in the queue. Heard that in testimony here in the Capitol building the last few weeks. And so do the math on that there's about \$90 million that the Unicameral has elected to ignore in potential income at the expense of the people that will pay the regressive taxes, the farmers that won't get the property tax relief. And so I'd urge the committee to take a hard look at who we're trying to support. Is it, is it the farmers and ranchers and people that are working in factories, or it is the companies that are largely out of state, maybe even out of the country? Thank you very much.

**FRIESEN:** Thank you, Mr. Madsen. Are there any questions from the committee? Seeing none, thank you for coming to testify. Neutral capacity. Welcome.

**MERLYN NIELSEN:** Good evening, committee members. You've been through an awfully long day already and I really appreciate all the hard work that you've put in as you go about your legislative duties, and congratulate the work of the Revenue Committee. It's been working very diligently on this problem all year long. I'm here speaking, my name is Merlyn Nielsen, M-e-r-l-y-n N-i-e-l-s-e-n, and I'm a resident of the rural Seward area. I'm here speaking in neutral capacity today. I find that the LB289, AM1381 amended bill has many good things in it, but many things that I question, and I see lots of complication in it as well. And I always get scared when I see many little small parts that interact and can be complicated. I have passed out to you the results of a study that Fair Nebraska, a group that I work with, a commission from to be done by Dr. Ernie Goss of Creighton University, and was shared with everybody earlier in the year, back in February. But that, I want to share that graph again because it shows that over the last seven-year period, 2010-2016 the residential property owners have paid right at 3 percent on average of their income into property

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taxes. Commercial businesses on their property about 4.2. And agriculture has been the high one there, and in its glory years of 2011, '12, '13 was down around 11 or 12 percent. And 2016 on that graph, you see it's at 36.8. A subsequent analysis that Dave Aiken has done, who is a professor of economics at UNL, shows that number in 2017 is up to 47 percent. So I'm looking for the help in property taxes that helps agriculture landowners because of those numbers that you see before you. Earlier we heard comments about winners and losers as we look at new taxing policies. That graph tells me there's been some very clear winners and losers over the last several years. I do wish to continue to urge the Revenue Committee to look at Senator Friesen's LB947 bill. LB947, as I read it, is one that I can follow. I, I can see the simplicity in that, I can also see how it clearly addresses both school funding across all the districts of Nebraska as well as helping them make that change in, in greatly reducing agriculture land property taxes.

**FRIESEN:** Can you wrap up?

**MERLYN NIELSEN:** Thank you.

**FRIESEN:** Thank you, Mr. Nielsen. Senator Walz.

**WALZ:** I just have a quick question on the graph. And I'm just curious what caused the dramatic decrease in 2010 to 2011?

**MERLYN NIELSEN:** In the agriculture number?

**WALZ:** Yes.

**MERLYN NIELSEN:** That was because of a large increase in income at that time. That was with the quote glory years of higher grain prices and the start of higher livestock prices right at that time.

**FRIESEN:** Thank you, Senator Walz. Any other questions from the committee? Seeing none, thank you, Mr. Nielsen. Any other neutral testimony?

**FRIESEN:** Neutral, still neutral. Any neutral testifiers? Seeing none, we go to opponents.

**JAMES GODDARD:** Good evening, committee members. My name is James Goddard, that's J-a-m-e-s G-o-d-d-a-r-d, and I'm the director of the economic justice program at Nebraska Appleseed, here this evening to

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testify in opposition to AM1381. I do just want to briefly say we understand the challenges and complexity facing not just the committees here but the entire body with property tax relief, and we appreciate all the hard work that's gone into working on solutions. Our concern is specifically about the sales tax increase in the amendment. And I'll tell you why. We have an intake line and an on-line portal for our organization where folks can contact us from all over the state, and we hear from people every day. They're contacting us to try and get some help with the challenge that they're facing. And we're doing what we can to help them. But what, what I can tell you that we hear from them is that people are struggling and they're facing challenges with poverty, with the cost of housing, with the cost of childcare, and more generally just making ends meet. And so that brings us to our concern with the sales tax increase. People in this position are, are just struggling. Sixty one percent of folks under poverty are working, 77 percent of folks in Nebraska who are at the poverty line spend more than one-third of their income on housing. So people are struggling and the AM would increase the sales tax by three-fourths of a cent, making it harder for low-income families to make ends meet. Even \$75 in a family at the poverty line matters. And so our concern is the regressive nature of the tax and hitting low-income families more heavily than high-income earners. With that, I will conclude.

**FRIESEN:** Thank you very much. Any questions from the committee?  
Senator Pansing Brooks.

**PANSING BROOKS:** So happy you're here. I'm-- thank you for coming, Mr. Goddard. I guess I'm just interested, we heard that, that on \$10,000 that it would only be, and I'm putting only in quotes, "only" be seventy \$75. Can you, can you put the, any kind of-- put just any kind of vision of what that means to family who is living below the federal poverty.

**JAMES GODDARD:** If you're a single mom around the poverty line earning, you know, somewhere around \$20,000 a year, \$75 is a big deal. That could be an insurance payment, it could be a bag of groceries, it could be your utility bill, or your cell phone bill. And so people living paycheck to paycheck, \$75 means something. And so it may not sound like, like too much, and I can understand why, you know, some would have that perspective. But at least the folks that we hear from are really facing challenges where every cent counts.

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**PANSING BROOKS:** Thank you. Since 38 percent of my district live at \$25,000 household income, right where we are right now, this district, it's something I am really concerned about. So thank you. And I do hear from those constituents. They are not here tonight, they don't really have a voice other than people like Nebraska Appleseed. So thank you.

**FRIESEN:** Thank you, Senator Pansing Brooks. Senator Briese.

**BRIESE:** Thank you, Chairman. And thank you for your testimony. Senator Pansing Brooks gave an example of such and such a percentage of her folks' household income being \$25,000. Do you have any idea what percent of some-- a family with a household income of \$25,000, what percent of that is spent on items subject to sales tax?

**JAMES GODDARD:** I could not tell you that, Senator. I can certainly look at that and try and get back to you. I'm not sure.

**BRIESE:** If you have a way to figure that out, I'd--

**JAMES GODDARD:** Sure.

**BRIESE:** --figure that out, I'd be interested.

**FRIESEN:** Thank you, Senator Briese. So if the earned income tax credit was increased to 15 percent, would that more than overcome any changes in the sales tax?

**JAMES GODDARD:** I think it would help a great deal. What I can say about the challenge of just the, the practicality of how that might work is when people are subject to the sales tax that's, you know, every time they're spending money, every day, every week subject to it, that's coming out of their pocket. And the EITC will eventually come back to them but only at a later part of the year. So I think the EITC can, can definitely help. And, you know, would encouraged the committees to consider that. I think it would go far, go far to addressing some of our concerns. But I, we are concerned about the level of the sales tax.

**FRIESEN:** Right. So SNAP benefits are obviously off the table because they will pay sales tax there, and so their disposable income is what you're talking about.

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**JAMES GODDARD:** Yes.

**FRIESEN:** If we increase the rate, is that more what you're concerned about than taking away some exemptions?

**JAMES GODDARD:** I mean, I am, I am not the expert on all of the taxation policies that you've been talking about this evening. But I think broadening the base, looking at some of the exemptions, and looking at potentially income, income tax and higher-income earners, so that there's a proportionality here in how much people are paying from low-income to high-income.

**FRIESEN:** Any other questions from the committee? Seeing none.

**JAMES GODDARD:** Thank you.

**FRIESEN:** Thank you, Mr. Goddard, for your testimony.

**MARTY BILEK:** Good evening, Senators. My name is Marty Bilek, M-a-r-t-y B-i-l-e-k, I'm the mayor's chief of staff in Omaha. Aspects of LB289 would create a financial hardship for the city of Omaha. Omaha valuation is currently \$37 billion dollars. If only 90 percent of the valuation was considered for property tax purposes, an approximate \$10 million hole would be created in our budget. Given the pending multi-million dollar increase in our trash contract and the ongoing \$2 billion sewer separation project, Omaha has no way to observe a \$10 million hole in our budget. Other political subdivisions might benefit from offsetting revenues generated by state sales tax increase, however, there are no offsetting revenues for cities. Omaha would ask that you would oppose LB289 or at least remove the 90 percent provision that it, that it involves. And I'll, I'll also add that given the testimony here today I know that it would be, you might be quick to point out that Omaha has an option possibly to raise our levy to compensate for the fact that the valuation went down. But the problem with that is, you know, in doing so, we're losing local control. Basically what you do is you're taking \$10 million out of our budget and say deal with it. And it's hard to deal with. And the other thing is now we're faced with the prospects of explaining to our, our voters that we're going to lower their property taxes by increasing their levy. And that's what this is for us. Thank you very much.

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**FRIESEN:** Thank you. Are there any questions from the committee? Seeing none, thank you for your testimony. Where, where is your levy at currently?

**MARTY BILEK:** Forty-seven point nine.

**FRIESEN:** Thank you.

**ELIZABETH FARRINGTON:** Good evening, Senator Linehan and members of the Revenue Committee. I'm Elizabeth Farrington, E-l-i-z-a-b-e-t-h F-a-r-r-i-n-g-t-o-n, a veterinarian testifying on behalf of Nebraska Humane Society in opposition to AM1381 to LB289. Specifically, the taxation of veterinary services for pets. I hope to show you some of the unintended consequences to public health and animal welfare that would arise as a result of this bill. The Nebraska Humane Society has owned and operated a low-cost spay and neuter clinic since 2012. In that time, we have provided sterilization surgeries for over 40,000 animals in Omaha and surrounding communities. A large majority of those animals have a history of very little to no prior veterinary care, and as such we also provide a rabies vaccination at the time of surgery in order to protect public health. Despite our best efforts to keep costs as low as possible, we hear from citizens daily that they can't afford to pay for a service that is often less than \$100. For many of us here, adding an additional few dollars to our bill may not present a financial burden. However, thousands of Nebraskans are less fortunate. An additional \$5 could be what prohibits an animal from receiving vital veterinary medical care. Not all persons utilizing spay, neuter services are owners of the animals they present. For example, there are many community members that help trap, neuter, and return feral cats to help eliminate pet overpopulation. Taxation of only 15 feral cat surgeries equates to the cost of one surgery. That one unaltered cat and her offspring can produce over 420,000 kittens in 7 years. The ramifications of animals not being sterilized are far-reaching and can negatively affect the public. Intact animals are more likely to escape residences in search of a mate and subsequently are often hit by vehicles. Consequences include human injury, property damage, and animal injury or death. From the sheltering perspective, NHS sees an average of 460 animals surrendered annually due to owners reporting an inability to financially support their pet. We anticipate the number of animals surrendered for this reason to increase if veterinary services become subject to sales tax. The ramification of increased numbers of animals coming into shelters are far-reaching. A few of those examples include: One, animal control calls will increase

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as people surrender their animals. Increased case load means increase in necessary resources, which is passed onto local governments. Two, cost of care for shelters and rescue organizations will markedly increase. While NHS is fortunate in our ability to provide care, many smaller entities with less financial resources may have to make euthanasia decisions for animals with treatable conditions. The length of time to treatment of an animal's condition, medical condition will increase. Consequences of delay to treatment vary in severity. At best, the animal experiences a prolonged period of unmanaged pain; at worst, the animal may lose its life. In closing, while NHS recognizes that pet animals may be viewed as discretionary, the medical care necessary to humanely care for pets is not. Furthermore, we know that citizens will continue to own pets. We want to help make sure those pets are able to receive basic lifesaving care. Thank you for your time and patience.

**FRIESEN:** Thank you, Ms. Farrington. Any questions from the committee? Seeing none, thank you for your testimony.

**ELIZABETH FARRINGTON:** Thank you.

**LANCE ROASA:** Good evening, Senator, Senator Linehan and members of the combined committees. My name is Lance Roasa, that's L-a-n-c-e R-o-a-s-a. I'm also a veterinarian and I'm testifying on behalf of the Nebraska Veterinary Medical Association in opposition to AM1381 to LB289. The Nebraska Veterinary Medical Association opposes the imposition of a sales tax on veterinary medical services. Current law provides an exemption for veterinary medical services and generally an exception for medical services. Veterinarians are medical professionals that do more than provide discretionary services. Veterinarians have a duty, through their State Practice Act and USDA accreditation, to provide to protect public health. We provide vaccinations, preventions, detection of, of zoonotic disease and also treatment of zoonotic disease. Zoonotic disease is disease that also affects humans. For example, the state relies on private practice veterinarians to carry out its mission of mandating rabies vaccinations. We also detect and report zoonotic disease that can affect children and the population at large. I will point out that only four other states have chosen to tax veterinary medical services. Further, you have heard Dr. Farrington testify that veterinary, that this tax will-- will detriment their spay and neuter mission. An increase in the cost of any veterinary services will prohibit or chill the effect of basic, these basic public health needs. That chilling

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effect will lead to an increase in potential disease and potentially zoonotic disease that is fatal, in the case of rabies. That chilling effect on the shelter pet population will already affect the strapped population. Keep in mind doubly that many of the smaller shelters out there at the county level are consumers of veterinary services as well. So veterinary medicine is not discretionary because it is mandated by the state. We believe that veterinary medicine should be taxed like other medical services in the state. We urge this committee to maintain the current exception on veterinary services. And with that, I will thank you for your time and am ready for questions.

**FRIESEN:** Thank you, Mr. Roasa. Any questions from the committee? Seeing none, thank you for your testimony.

**LANCE ROASA:** Thank you.

**RANDY SCHMAILZL:** Good evening, senators. Randy, R-a-n-d-y, Schmailzl, S-c-h-m-a-i-l-z-l, I'm president of Metropolitan Community College. We cover four counties in Nebraska in our service area: Sarpy, Douglas, Dodge, and Washington County. I'm here tonight, although not explicitly mentioned in the, in the AM or the bill, community colleges, the 10 percent valuation movement will have an effect on Metro Community College. And Greg Adams is following me and he'll talk about the remainder of the community colleges. Metro operates with about \$115 million general fund. We have 26,000 credit students and another 14,000 non-credit reentry students, adult learners, ESL, developmental students. So we're a large operation, but 42 percent of state's population lives in our four counties and 27 percent of the state's valuation comes from our four counties, which is about \$60 billion. So we generate annually about \$50 million in property tax and a 10 percent valuation loss would mean the college will be subject to a revenue decline of approximately \$5 to \$6 million. Twenty-seven percent of our budget is from tuition and 24 percent is from state aid. The state of Nebraska allocates \$98 million for all six community colleges to share across the state. Otherwise, we're on our own to local levy on property tax and tuition. I would like to mention that the fame of Metro Community College, as any other college, is that we serve open access to individuals. You're not required to go through an admissions procedure or in some ways admissions elimination. You're open to come to the college and we place you, get you in classes, get you started, and try to move you into the work force. Metro and is really an important partner in Omaha in the work force. We have just finished up approximately \$160 million worth of private fundraising to

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build buildings. We did not bond those buildings. Our taxpayers are not paying for those. We're very lucky in the Omaha area to have philanthropists that are interested in supporting the college. I'm not here tonight to make any predictions about Metro Community College, but I am here to let you know that I can, I certainly appreciate what you're trying to do and I want you to know for sure our, our end of the story from the college. Because we're a little different when it comes to a political subdivision. I, through my 30 years of service at the college, believe solely that we are not in the process of overspending. In fact, we've been underfunded for some time.

**FRIESEN:** Please wrap up.

**RANDY SCHMAILZL:** Thank you.

**FRIESEN:** OK, are there any, are there any questions? Senator Walz.

**WALZ:** Yeah. Thank you for coming today. That brought a new perspective for me. So you, I just want to make sure I got that right. Twenty-seven percent funded by tuition.

**RANDY SCHMAILZL:** Yes.

**WALZ:** Twenty-four percent funded through state aid.

**RANDY SCHMAILZL:** Correct.

**WALZ:** And so 49 percent is funded through local property tax?

**RANDY SCHMAILZL:** Really 48 percent. We have one percent other income that we pull out of a reserve total to the college. So yeah, 48 percent is funded by property tax, yes.

**WALZ:** All right. Thank you.

**FRIESEN:** Thank you, Senator Walz. Any other questions from the committee? Senator Stinner.

**STINNER:** I do want to-- tell us again what the number of students, full-time students you have, part-time.

**RANDY SCHMAILZL:** We have 26,000 credits students. Now, they may not all be full-time students but they generate probably, if you added them all together, they would equal about 10,500 full-time students. But 75 percent of our student body is part-time. So they got jobs,

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they have families, they have everything. So they're not really in the business of going to school part-time-- full-time. We have a business and industry side that generates about 5,000 to 6,000 non-credit students. We have about another 5,000 to 6,000 from our non-credit side, our adult learning. And then we have a reentry program that's a national model. And that adds about 1,500 students in it that come through. And then we have adult basic ed. Most of the schools in the Omaha area have stopped providing GED. Metro is the only place in Omaha besides Douglas County Corrections that you can take the GED. And we're left with about 5,000 students, but only about 1,500 currently enrolled, Senator Stinner. So that's what equals the 40,000 souls that march through Metro in a year.

**STINNER:** So do you track, track your souls that move through there into the job, into to the work force?

**RANDY SCHMAILZL:** We sure do.

**STINNER:** And how much do they provide--

**RANDY SCHMAILZL:** But as best we can we work with the Department of Labor in Nebraska on unemployment and insurance to try to track them into full-time jobs. And then our reentry program tracks it, our work force tracks it. And there is a large number of students, and I'm speaking in the name, in the terms of thousand, that are incumbent workers already. They already have jobs. So if you're in the heating and air conditioning, which has been talked a lot about today, you're going to come to Metro and get your recertification and certification, but you already have a job. Same thing with the architect and, you know, the truck driving. And so, yeah, we do track that. And I can't tell you that it's 100 percent, because it's not, you know? Many, many people-- I can tell you though for sure that there was a Washington Post article about three or four months ago on how the unemployment in north Omaha has gone down about 15 points because of the work Metro is done with trying to help you move from where you're at to a job with First Data Resources, airlock plastic. And it's a starter job but we've all had a first job. That's critical.

**FRIESEN:** Thank you, Senator Stinner. Any other questions from the committee? Seeing none, thank you for your testimony.

**GREG ADAMS:** Members of the committee, my name is Greg Adams, G-r-e-g A-d-a-m-s, and I am executive director of the Nebraska Community

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College Association. And in light of what President Schmailzl has already said, and your time is precious, I don't want to be very repetitive. It is the value that we are concerned about in this particular amendment. Senator Walz, if you look at the, the triad of state aid tuition and property tax that President Schmailzl talked about, if we take the other five colleges in aggregate it's virtually the same numbers. Virtually the same numbers. The one thing that I would, would like to add, and then I'll leave you alone, is I go out to Western Community College. I want you to think about it for a moment. If there is a drop in value, all of our colleges have room on their levy, they all do. And you can imagine what, what then is going to happen. But as you come across the state and tuition rates start to go up, and you get to Western Community College that has the least amount of room on their levy, they have the highest tuition rates, and they've been experiencing drops in value. Taking another 10 percent off is, is going to be very, very difficult on them. With that, I'll conclude.

**FRIESEN:** Thank you, Mr. Adams. Senator Kolterman.

**KOLTERMAN:** Thank you, Senator Adams, for coming. I have a question for you. It doesn't pertain to your role as a community college.

**GREG ADAMS:** Uh-oh.

**KOLTERMAN:** That's a fair question. You served over eight years ago. Were you involved at the time when you started taxing construction? Were you in the Legislature at that time? Building construction?

**GREG ADAMS:** Well, eight years ago I was, and I sat there on the Revenue Committee. And we handed out far more exemptions than we ever did put a tax on anything. I think we may be involved in that, but we, we would have committee hearings like this with people lined up to get exemptions on the sales tax. And almost always we said yes, and we have riddled the base.

**KOLTERMAN:** And my question really is, at that time we ended up walking that back after several years. Do you, were you here when that happened?

**GREG ADAMS:** I probably was, but I can't-- I can tell you about TEEOSA, but I can't tell you about that.

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**KOLTERMAN:** All right. Thank you.

**FRIESEN:** Thank you, Senator Kolterman. Senator Groene.

**GROENE:** Thank you, Greg, for being here. You've sat in my chair as Education Chair. The averaging adjustment, do you know of any Education Chair or that ever thought that was a good idea?

**GREG ADAMS:** I suppose that Senator Raikes did because it was imposed at the time that the current formula was originally brought in. And I know that-- I still have marks on my back where I fought for eight hours to try to get rid of the averaging adjustment. There, there's, there's arguments for it, I understand that. But from a policy standpoint, I really struggled with it, and I think Senator Sullivan did as well.

**GROENE:** I don't have the chart here but this conversation started to go back around that this is all about public schools and ag valuations. Community colleges over the last 10 years went up 285 percent, higher than anybody else.

**GREG ADAMS:** What went up 285?

**GROENE:** You are asking how many dollars you took in, community colleges as a whole. Because you were the biggest beneficiary from huge ag land increases. Do you understand the taxpayers when they pay property taxes, they're not just looking at schools? The community colleges have taken a huge increase over the last 10-15 years. The NRDs have, counties have, cities have, there's been a pretty fat hog lived off of valuation increases in this state. And what scares the taxpayer in this one? You all manage to spend it. And there's an "unsatable" amount of money that never seems to be an end to it. My concern is it's not just the schools that we have a property tax problem in this state. It's also you, it's also the city. That's one of the reasons this committee looked at lowering valuations by 10 percent, because you've had 40, 50, 60, 100, 200 percent increases over the last 10, 10 to 12 years. So anyway, I just, you're not all saints.

**GREG ADAMS:** I never claimed to be, Senator.

**GROENE:** Thank you.

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**FRIESEN:** Thank you, Senator Groene. Any other questions from the committee? Do you have a way of, you know, in schools we can track the cost per student. And it's a little more difficult with the community colleges because of the different credit hours, I suppose. But is there, is there a way that you can somehow track the cost? I mean, have your costs gone up that much or is it the number of students you're teaching or--

**GREG ADAMS:** You know, much, it's personnel costs primarily. Just like with K-12 and everybody else, you got health insurance, you got collective bargaining, you have utilities. And as far as directing costs, I think I provided some of those things to your office. And so many programs are different. You take an English class and put 20 or 25 kids in it in front of an adjunct professor and you compare that to a, to a sophisticated electronics class or robotics class, where you have very expensive equipment and you're only going to put a handful of students in. It-- there's gonna be a great deal of difference there on, on a per-student cost.

**FRIESEN:** OK. Senator Kolterman.

**KOLTERMAN:** Thank you. Senator Adams, how many, how many graduates-- do most your graduates from community college stay in Nebraska?

**GREG ADAMS:** We were at 92 percent. I think we've dropped down to 90 percent of our graduates stay in Nebraska. And they stay particularly in the service area from where they went to school.

**KOLTERMAN:** So if they're going to Western, they stay out west?

**GREG ADAMS:** Yes, they do.

**KOLTERMAN:** And what, what's the average cost of a student for so-- because it's mostly associate's degrees.

**GREG ADAMS:** This, this year, and I'm going to take room and board out of it, but just for tuition and fees and books, you're looking at about \$3,200.

**LINEHAN:** A year or a semester?

**KOLTERMAN:** Is that a year or the semester?

**GREG ADAMS:** That's a year.

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**KOLTERMAN:** That's a year? Wow.

**GREG ADAMS:** That's a good deal.

**KOLTERMAN:** It is a good deal.

**GREG ADAMS:** Which is one of the pressures on us to keep our tuition down. We could-- we could generate more revenue by, by raising tuition. But we-- that's not our mission.

**KOLTERMAN:** For the cost of what we're educating them for, would you say you're probably one of our best economic drivers and best job placement industries in the state?

**GREG ADAMS:** You know, the way you asked that question, I mean, thank you very much. We are the best right now.

**KOLTERMAN:** Well, I'm a proud graduate. That's why I said it.

**GREG ADAMS:** Thank you, Senator.

**FRIESEN:** Thank you, Senator Kolterman. So 90, 90 percent of your graduates stay in the state?

**GREG ADAMS:** Yeah. A year ago we were at 92, I think we're just under 90 this year.

**FRIESEN:** We close the universities then, because I see more of them leave?

**GREG ADAMS:** I'll let you answer that, Senator.

**FRIESEN:** Just a question. All right, seeing no other questions, thank you for your testimony. Do we have any more that want to testify to a neutral capacity? OK. Yep.

**KIM ZWIENER:** Hello, I am Kim Zwiener, K-i-m Z-w-i-e-n-e-r. I am in the governmental affairs chair for the Nebraska Realtors Association. We at the Nebraska Realtors Association are concerned about the economy of our state. The transfer of real estate has a huge impact on the viability of many industries that we've talked about today. We are against the idea of raising state doc stamps to alleviate property taxes. State doc stamps are only collected when a seller transfers their property to a new buyer, therefore they are really a transfer tax on real estate. In the past, we, as the Nebraska Realtors

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Association, have been on board with the current \$2.25 per \$1,000 doc stamp fee. Currently, some of the funds are being used for the modernization of record keeping. This record keeping helps facilitate access to public records and in turn helps our industry be more efficient. But more importantly, more of these funds are going into an affordable housing trust fund, as well as other community projects. This money is helping to alleviate our housing affordability crisis. By adding privately subsidized housing to communities in need some great projects have come out of that money across our state. This increase has a negative impact our entire, on our entire population, but especially those seeking affordable work force housing. The extra fees increased closing costs, which ultimately cause the buyer to be able to afford less home for their money. This greatly hinders the life cycle of our housing market, thus affecting many other industries such as construction, lending, insurance, moving expenses, new appliances and fixtures, and real estate brokerages. Did you know the total economic impact of each new home sold in our great state adds \$59,746 to our Nebraska economy every time the house is sold? In the most recent National Association of Realtors report the real estate industry accounted for approximately 12.5 percent of the gross state product in Nebraska, equaling \$14.9 billion. Knowing that in 2016 the wealth of homeowner is roughly 45 times greater than that of a renter, we need to continue to fight for and protect homeownership. The proposed extra \$1 added to doc stamps is a continued hit to our economy. With the average sale price of a home being about \$185,000, that's about \$185 more per transaction, making the total state doc stamp fee \$601 per sale. The American Dream of home ownership is continuing to be less attainable for Nebraskans. We must have a robust housing environment--

**FRIESEN:** Please wrap up.

**KIM ZWIENER:** --to ensure the long-term stability of our communities, local businesses, and net worth of homeowners.

**FRIESEN:** Thank you. Are there any questions from the committee?  
Senator Groene.

**GROENE:** You're the-- what's your title?

**KIM ZWIENER:** I'm the governmental affairs chair of our state association.

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**GROENE:** Did you run the numbers? Think on a mortgage payment about 40 percent of it is taxes and escrow account. So you're telling me if somebody buys a house for \$185,000 we ask them to pay \$185 more on the, in their financing and we give them-- at two mills that's \$3,700 in property taxes and we take that, cut that 24 percent, 20 percent. They wouldn't trade \$600 in property tax for the next 20 years over paying \$185 up front?

**KIM ZWIENER:** It's just another level for-- our, we are having a housing affordability crisis.

**GROENE:** If their escrow count drops and their monthly payment drops \$650 a month, would that make it more affordable for them to buy a house or would they worry about the \$185?

**KIM ZWIENER:** I think that it's not just the state doc stamps. I think it's all the other services that are also--

**GROENE:** All part of the package?

**KIM ZWIENER:** --part of the package, right.

**GROENE:** Thank you.

**FRIESEN:** Thank you, Senator Groene. Any other questions from the committee? Senator Briese.

**BRIESE:** Thank you, Senator Friesen. Thank you for your testimony. And typically, isn't the market closing cost often incorporated into the loan amortized over 30 years?

**KIM ZWIENER:** Not always.

**BRIESE:** But it can be?

**KIM ZWIENER:** It can be, yes.

**BRIESE:** \$180 would be amortized over 30 years.

**KIM ZWIENER:** Right. But it's just another-- we, we do not have affordable housing available. So if you're adding another cost and then also on top of the services that might need to be done for the house to be sellable, you're pricing your buyers out of the house, the homes.

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**BRIESE:** Thank you.

**FRIESEN:** Thank you, Senator Briese. Any other questions from the committee? Senator Walz.

**WALZ:** I just wanted to say thank you for coming here and representing realtors today.

**KIM ZWIENER:** Thank you, Senator Walz.

**FRIESEN:** Thank you, Senator Walz. Your commissions over the past 10 years, have they gone up or down or where, where is the commission on selling a house these days?

**KIM ZWIENER:** Honestly, mine have been, across the board they've been down.

**FRIESEN:** What relatively are they charging?

**KIM ZWIENER:** I can't discuss that.

**FRIESEN:** Is there a range?

**KIM ZWIENER:** I would say 4.5 to 7.5.

**FRIESEN:** OK, and has that, as the value of houses have gone up, and they're going up quite rapidly now, do you think those commissions are going to come down?

**KIM ZWIENER:** It's all market driven, so there are definitely more business practices. So it's definite, it's set by each individual business person.

**FRIESEN:** Houses a little more affordable if it was 4 percent rather than 6?

**KIM ZWIENER:** What is your service for, Senator?

**FRIESEN:** Evidently not very much right now.

**WALZ:** \$3.40 an hour.

**FRIESEN:** Thank you. Seeing no other questions, thank you for your testimony.

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**KIM ZWIENER:** Thank you.

**MADDIE FENNEL:** Good evening, Senators. My name is Maddie Fennell, M-a-d-d-i-e F-e-n-n-e-l-l, executive director of the Nebraska State Education Association. And I'm representing our 28,000 members in opposition to AM1381 to LB289. NSEA has long-recognized the need to shift school funding from an overreliance on property tax to sales and income tax. We applaud the leadership of the senators who have acknowledged that need as evidenced by their work on this legislation. However, we do not believe the current proponents of LB289 and the amendment, AM1381, accomplish this important goal while also providing school districts with funding stability. When the idea of building a tax base on property tax was first introduced many years ago, probably about same time this hearing started, the Nebraska economy was primarily ag and product-driven. As we've moved to a more service-based economy we've provided too many exemptions on services. If we are to balance the three-legged stool of school finance we must be willing to repeal more exemptions beyond the four listed in this bill. While I enjoyed my manicure yesterday, I'm the first to acknowledge that this is a luxury item and should be taxed. So should other personal care services, legal services, and a host of other items. In terms of equitable tax policy, LB289 falls short, as it does nothing to require large corporate and high-income earners to increase their contribution in the effort to address this issue. We do not believe Nebraskans support a tax policy that allows a millionaire to pay the same marginal income tax rate as an individual making \$30,000. On its face, it appears that this proposal is to use, is to use increased sales tax revenue to fund additional state aid to schools through a new distribution formula. However, unlike the Highway Trust Fund, the revenue that would be generated by this proposal for additional state aid is not placed in a trust fund and could be cut in future years. Cuts in state aid to education are one reason we face an overreliance on property taxes in Nebraska. In 25 of the last 29 years the amount required to fund the state education, state aid to education has been cut by the Legislature and the Governor by changing the TEEOSA formula. We believe a better approach would be to establish an education trust fund and dedicate specific tax revenue to that fund. This would help ensure the funding is not diverted from education in future years and would provide our public schools with funding stability. Let's replicate what we know works. As always, we stand willing to work with anyone to help find a workable solution to a difficult problem, one our state has struggled with for decades.

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What we are not willing to do a support a proposal that will dramatically hamstring local school districts in their work to provide students with a quality education that is essential to student success and our state's future. Thank you.

**FRIESEN:** Thank you for your testimony. Senator Briese.

**BRIESE:** Thank you, Chairman Friesen. Thank you for your testimony.

**MADDIE FENNEL:** Yes, Senator.

**BRIESE:** I think I've heard you allude to a concern about some slippage in funding through the years. Did you hear Bryce Wilson from NDE earlier suggest that we're locking ourselves into this legislation? Do you disagree with that?

**MADDIE FENNEL:** From what I've heard, it sounds like that there maybe have been some things that have changed even since we've done our analysis of the bill. And there might be some changes. It's just that we feel that it should be much more like the highway. I mean, if the new changes that I've been made are like the Highway Trust Fund then we're OK with that. But if we're not, I mean, we've got something that works. Let's just replicate that.

**FRIESEN:** Thank you, Senator Briese. Any other questions from the committee? Seeing none, thank you for your testimony.

**BILL LANGE:** Bill Lange, B-i-l-l L-a-n-g-e. Chairwoman Linehan and members of the committees, I'm testing-- testifying on behalf of the Nebraska Self Storage Owners Association, I'm the president of that organization. The Nebraska Self Storage Owners Association represents owners, operators, vendors, and we serve more than 600 storage facilities around the state of Nebraska. More than 90 percent of the storage owners and operators in Nebraska are small businesses and they are based in the state of Nebraska. Moreover, our industry meets the storage needs of about 200,000 Nebraska families and businesses. For the following reasons we oppose the proposed new tax on storage services. Storage businesses rent real estate. It's no different than, and it is similar to, businesses that rent apartments, office space, retail space, and housing. The tenants move in and out unassisted by the landlord. This landlord-tenant relationship is recognized by both the Nebraska Self Storage Service Facilities Act [SIC], Section 76-1601; and the Disposition of Personal Property Landlord and Tenant Act, Section 69-2301. The rental of real estate is fundamentally

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different than the list of goods and services that you're proposing sales tax on in LB289. Nebraska does not impose and is not seeking to impose sales tax on other business, businesses that rent real estate or real property or have leases with their tenants. There's still really sound policy or a reason to single out storage businesses and their tenants and this unequal treatment between other landowners. Additionally, the national data on service self-storage tenants shows that the storage is often used by low, lower to moderate-income families and individuals. Often these families have residence that are too small for their needs or they're experiencing significant life events such as death in the family, military deployment, housing or job loss, divorce, or relocation. A tax on the rental storage space would yet be another burden to these struggling families and individuals. This cannot be the result of what--

**FRIESEN:** Please wrap up.

**BILL LANGE:** --the state of Nebraska wants. Why would you want to put a new tax on real estate to reduce an existing tax on real estate? Moreover, the Governor Pete Ricketts opposes any plan that lowers one tax by raising another. For the foregoing reason, the Nebraska Self Storage Owners Association respectfully requests that LB289 be amended to remove the proposed tax on the storage services. Thank you for your consideration.

**FRIESEN:** Thank you, Mr. Lange. Any questions from the committee?  
Senator Groene.

**GROENE:** What's your highest cost factor? What's the highest cost you have for a storage unit?

**BILL LANGE:** It varies greatly throughout the state. Lincoln and Omaha is going to have a higher storage unit--

**GROENE:** No, on the owner's cost. Input cost for owning storage units, is it property taxes?

**BILL LANGE:** Oh, the highest expense, yeah, is property taxes. Yes, definitely.

**GROENE:** So if we charge for service, sales tax on a service that you offer and we lower your, your biggest cost by 20 percent, I don't understand why you aren't in favor of this bill as a business man.

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**BILL LANGE:** I guess in the past, one, one of the others in here, it doesn't seem like that it always gets lowered, you know? Or if it does get lowered it gets raised right back up, you know, shortly after that.

**GROENE:** I agree with you there. Thank you.

**FRIESEN:** Thank you, Senator Groene. Any other questions from the committee? Seeing none, thank you for your testimony.

**BILL LANGE:** Thank you.

**JULIA TSE:** Good evening. For the record, my name is Julia Tse, J-u-l-i-a T-s-e, and I'm here today on behalf of Voices for Children in Nebraska. I want to start off by comments by thanking Senator Linehan and many members of the Revenue Committee that I know have been working very hard on this issue. It gives me no pleasure to oppose this amendment but I think that some of my comments might help with a path forward. We are primarily opposed to AM1381 because it takes an approach to property tax reform that rests heavily on the backs of low-income children and families. I'll quickly build off of some of the comments that Mr. Goddard made about the EITC and the sales tax. The EITC is widely recognized as one of the most effective anti-poverty programs in the country, keeping an estimated 19,000 children out of poverty annually. The state EITC is refundable and is credited from the first dollar earned and phases out as family income increases, which incentivizes work. In total, over 126,000 Nebraska families claimed the state EITC in 2017, returning nearly \$30 million to the pockets of Nebraska's working families and in turn our local communities. The EITC puts money back into the pockets of working parents who need it the most and ensures that children have what they need to survive and to thrive. The research on the returns that we see in our investments in EITC are robust. Although there are no short-term returns that I can point to, there are plenty of long-term ones in the form of improved health outcomes for babies and mothers, improved performance at school, and improved measures of post-secondary success, and even higher earnings in adulthood. I'm attach, I've attached to my testimony some more information about who's eligible for EITC and what it might look like to increase the state aid EITC in your, in your districts. I also wanted to follow up on a question about sales or expenses for low-income family, families that would be impacted by the sales tax increase that Senator Briese had. So this is not a perfect measure, but the bottom 20 percent of

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taxpayers in Nebraska which, who are those earning less than \$24,000 annually pay 6.1 percent in sales tax. And at the top end, the top 1 percent pay 0.8 percent in sales tax. Even the second to the bottom quintile of taxpayers pay about 5.3 while the top 4 percent pay 1.7 percent in taxes as a share of their income. I also want to briefly talk about the discussion between what families are earning and what it takes to really raise a family. I just saw the red light, so I'll just wrap up there.

**FRIESEN:** Thank you. Are there any questions from the committee?  
Senator Walz.

**WALZ:** Can you finish what you were going to talk about?

**JULIA TSE:** Sure. Thanks. So Senator Pansing Brooks mentioned that she often hears from constituents in this district, and I looked up quickly what it would take to make ends meet based on market costs in Lancaster County for a family of two with a single mother and or a single parent and an infant, and that would be \$33,000. So I think that it's worth noting that not all families who are living in poverty are receiving the resources that could help them make ends meet because so many of our children, 14 percent last year, were living in poverty in our state. Which was-- sorry, I can't find the number here, but I think \$24,000 or \$16,000 annually for a family of two.

**WALZ:** And then I have another question. You, you said the bottom, those earning less than \$24,000 annually pay the most in sales and excise tax at an estimated, at 6.1 percent of family income. And then just 0.8 for the top 1 percent of taxpayers. How-- can you explain that a little bit to me how?

**JULIA TSE:** Yes. That is not a number that I came up with, so that is an ITAB analysis, and they put together those estimates state by state, looking at a very large database of actual tax returns that have been submitted. And this is a database that the IRS put, has put together years ago and ITAB continues to use this database to make these estimates. So there's estimates on other forms of taxes, like what did people pay in income taxes when you look at the brackets in that state.

**WALZ:** So this is taxes, income taxes, sales tax?

**JULIA TSE:** This, this figures is specifically sales and excise.

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**WALZ:** Sales tax.

**LINEHAN:** Cigarettes.

**FRIESEN:** Thank you, Senator Walz. Senator Pansing Brooks.

**PANSING BROOKS:** Thank you. Are you, you're talking about the percentage of taxes, right?

**JULIA TSE:** So it is a percent of the income. So that's the tax burden that they're--

**PANSING BROOKS:** OK. Can you explain, as you know, I brought, I brought four years of income tax bill. It's in committee, it's really good. Anyway. So what I'm interested in is, I don't understand the part where on your graph, the second page, where it talks about qualifying children claimed, and there's a heading for zero. Could you explain that please, because--

**JULIA TSE:** Yes.

**PANSING BROOKS:** --it's for working families with children.

**JULIA TSE:** Yes. So some filers who do not have children are eligible for a credit, but it is a much smaller credit. I'm not as familiar with that number and I should have written it down. So for example the maximum federal credit for a family with one child was just over \$3,500 and for a family with no children it would be \$500. And that's the federal credit, so our state credit would be 10 percent of that, which is like \$50 for someone without children.

**PANSING BROOKS:** OK. Thank you.

**GROENE:** Vice Chair.

**FRIESEN:** Senator Groene.

**GROENE:** All of these numbers you could play around with actually, though. The subgroup of people under \$24,000 would have a negative income tax rate, wouldn't they? With the EITC?

**JULIA TSE:** The EITC is fully-refundable, so even though they wouldn't have--

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**GROENE:** They would have a negative tax rate.

**JULIA TSE:** So they would still receive a credit back, even if they--

**GROENE:** So basically when you get a study on their income taxes they would have a negative tax rate. Because you made the comment that they put it back in their pocket. It was never there in the first place. We put money in their pocket. It's a refundable tax credit. If you pay \$10 in income taxes and your refundable tax credits is \$100, you get a \$90 check.

**JULIA TSE:** Oh, yes.

**GROENE:** Effectively they have a negative income tax rate. So there's two sides to every coin.

**JULIA TSE:** Sure, I see your point. And I think that the, what I would say to that is that because of the level of eligibility for EITC is currently, it's not just families who are earning \$24,000 who are eligible for this, it is 130,000 Nebraskans, and those are families who are not eligible for assistance and families who are still struggling to make ends meet even if, even if there are, there are forms of assistance available to some Nebraskans.

**GROENE:** Thank you.

**FRIESEN:** Thank you, Senator Groene. Senator Pansing Brooks.

**PANSING BROOKS:** So that helps with the cliff effect that we hear so much about, because as people are working and trying to get off of assistance. So we aren't taking into account the money that we're saving by not paying assistance in, in all sorts of other areas, because they are out working and they are supporting their families and they are putting dollars into our economy.

**JULIA TSE:** That's an excellent point. And it's like there is a bill introduced to this Legislature that would address that. Yes. That's, I think incentivizing work is really the way that we want to go in ensuring that families have what they need.

**PANSING BROOKS:** Yes. Thank you.

**FRIESEN:** Thank you, Senator Pansing Brooks. Any other questions from the committee? Seeing none.

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**JULIA TSE:** Thank you.

**FRIESEN:** Thank you for your testimony.

**CHUCK PARKER:** Good evening, members of the Revenue, Education, and Retirement Committees. My name is Chuck Parker, that's C-h-u-c-k P-a-r-k-e-r. I'm the director of food service sales for LinPepCo, which operates four Pepsi franchises in Nebraska. I'm here representing the Nebraska Beverage Association and testifying in opposition to AM1381. Specifically we are opposed to Section 12 on pages 23 through 25, where soft drinks and bottled water are redefined in such a way as to exclude them from groceries, subjecting them to a state sales tax. The Nebraska Beverage Association has been representing the nonalcoholic beverage industry with brand names such as Pepsi, Coca-Cola, and Keurig Dr. Pepper Snapple in this state for over 30 years. In that 30 years, the beverage industry has contributed substantially to our neighborhoods, communities, and the Nebraska economy by providing good-paying jobs, charitable donations, and a sizable amount of tax dollars. In 2018, our companies contributed \$71.6 million to the state in taxes, paid over \$94 million in wages to hardworking Nebraskans, donated \$7.9 million to charitable causes statewide, and had a direct overall economic impact of \$982.6 million. With the recent flooding we stepped up to the plate, donating bottled water, money, and time to the relief efforts. We directly employed 1,410 jobs to Nebraskans statewide and another 11,000 Nebraskans depend partly on beverage sales for their livelihoods. Taxing soft drinks and bottled water at the proposed rate of 6.25 percent ensures that sales will decrease and we estimate a devastating \$50 million in lost sales statewide. This does not consider the impact of lost sales due to border bleed. Passage of AM1381 by this Legislature will make Nebraska the second-highest taxing state of soft drinks and bottled water among our bordering states, slightly trailing only Kansas. The lost sales and border bleed will ultimately put hardworking Nebraskans in the unemployment line. When sales decline and jobs are lost, our communities will feel the impact. Choosing winners and losers through the repeal of targeted sales tax exemptions is a dangerous precedent for this legislator, Legislature to set. AM1381 is an insult to the important contributions the Nebraska Beverage Association makes across the state and to those whose jobs would be placed in jeopardy with its passage. On behalf of the Nebraska Beverage Association, I encourage you to vote no on AM1341 [SIC], and I thank you for your time.

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**FRIESEN:** Thank you, Mr. Parker. Any questions from the committee?  
Senator Briese.

**BRIESE:** Chairman. Thanks for your testimony. How many other states tax soft drinks?

**CHUCK PARKER:** That I have. I, I'm not gonna go through the whole list with you but Kansas does. As far as border states, Kansas does, Missouri does. I'm sorry, this-- I'm sorry, I take that back. Colorado does, Iowa does. And those are the only two border states that treat soda the same as grocery.

**BRIESE:** Kansas doesn't?

**CHUCK PARKER:** Kansas does not.

**BRIESE:** My, my information differs, but 35 states in total tax soft drinks give or take?

**CHUCK PARKER:** I don't have that information, currently. But I, we could get it to you.

**BRIESE:** Thank you for your testimony.

**FRIESEN:** Thank you, Senator Briese. Any other questions from the committee? Seeing none, thank you for your testimony.

**CHUCK PARKER:** Thank you.

**LEON BROWN:** I must have known this was gonna run late, it actually says good evening on here, so good evening. My name's Leon Brown, that's L-e-o-n B-r-o-w-n. I'm the sales manager at Chesterman Coca-Cola, and I'm appearing today as a member of the Nebraska Beverage Association in opposition to LB298 [SIC]. The Nebraska Beverage Association, along with our 1,400 employees, are strongly opposed to LB29-- or LB289. I guess it'd be better if I got it correct. As it would treat-- I'm gonna talk specifically about bottled water today, as it would tax bottled water the same with pop and candy. My testimony today will be focused on bottled water. We all know the water is necessary, if we're looking through the lens of need to have versus nice to have. I think we can agree that water is definitely a need, especially in a time when Nebraska has faced many natural disasters and emergencies. In the wake of the recent Nebraska floods, our national local distributors donated bottled water and soft

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drinks. Chesterman Coca-Cola PepsiCo National, LinPepCo, right here in Lincoln, Keurig Dr. Pepper and Snapple donated 16,000 cases of bottled water and soft drinks, and the Coca-Cola Foundation pledged \$100,000 to the Red Cross. Our companies made these donations because safe drinking water is, we, we feel is a necessity. This bill would allow the Governor to, quote, stay the collection of sales and use taxes on bottled water for a period of 60 days in any area of the state affected by a disaster, emergency, or civil defense emergency. We don't feel that this position, position will work. People are going to buy water before the emergency occurs, when we see the forecast happen. And then once the emergency does happen, the communities in which they live are gonna be out of water or out of those supplies. So how, how quickly can the Governor declare an emergency? How quickly can we determine which areas are affected? How does a local grocery or convenience store reprogram their cash registers to stop taking that tax dollars? It would be extremely difficult for the Department of Revenue and the retailers. I see serious problems with this bill and the amendment. It's for those reasons that the Nebraska Beverage Association and Chesterman Coca-Cola is opposed to this bill.

**FRIESEN:** Thank you for your testimony. Any questions from the committee? Senator Groene.

**GROENE:** You said water is a need?

**LEON BROWN:** Yes, sir.

**GROENE:** Do you have sleepless nights charging people for a need?

**LEON BROWN:** Well, I think any time I turn on my tap, the city of Lincoln charges me for water as well. [LAUGHTER]

**GROENE:** Where I come from we don't pay for it. Anyway, thank you.

**FRIESEN:** Thank you, Senator Groene. Any other questions from the committee. Seeing none, thank you for your testimony.

**LEON BROWN:** Thank you.

**SHANNON McCORD:** Hello, my name is Shannon McCord, spelled S-h-a-n-n-o-n M-c-C-o-r-d, and I'm opposed to LB 289. My wife and I own and operate Ideal Market, a mid-sized single grocery store located in Superior, Nebraska. We are a third-generation business that is located very close to the Kansas state line. Taxing candy, soft

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drinks, bottled water, and increasing the excise tax on cigarettes by 36 cents would be bad for our business. The closer that our state gets to our surrounding states, Kansas and Iowa in particular, the less customers are going to drive here to save money and that will prevent us from obtaining out-of-state taxable sales that will be lost. What I'm mostly concerned about is the proposal would place an additional burden on single-store operators. As written, government establishes the ingredient criteria and would be up to us as businesses to determine which products fall under the guidelines. For large chains, one individual could be in charge of deciding what to tax. But for a single-store operator, this would be a difficult expense. Small rural grocery stores that already have a labor shortage and are competing with Dollar General would be at a disadvantage risking their future. If these businesses fail, that would create a food desert for fresh fruits, vegetables, and meats in rural communities. For those truly concerned about the health of our rural areas, they should realize the danger that this presents. The importance, the importance of having a single person in charge of keeping the stores in compliance cannot be understated. On average, 15 items in our stores will change their formulations each week and the only way to catch those is if we check each and every case as it comes into our store. Then there's SNAP, retailers must meet established criteria to become authorized by the USDA to accept SNAP payments. If we are in violation of charging tax on a SNAP item, we run the risk of losing our ability to accept SNAP. And if we lose SNAP, we will also lose our WIC customers, and those losses could cause a business to fail. On the other hand if we inadvertently don't tax an item that's taxable, the Nebraska Department of Revenue will find those errors in an audit and we will be responsible for paying those taxes that we did not collect, plus a penalty. This bill will take money out of the pockets of our customers and move businesses out of-- business out of state, our communities, and our stores. The rural area-- and in rural areas it could create an unfair advantage for chain stores over many single-store operators in our state. I would ask that you help small businesses thrive by not increasing the excise tax on cigarettes and by not removing the exemption on food items. Thank you. I'd be happy to answer any questions.

**FRIESEN:** Any questions from the committee? Senator Crawford.

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**CRAWFORD:** Yes. Thank you, Vice Chair Friesen, and thank you for being here. I appreciate hearing your perspective. I just wondered if in your grocery store do you sell any prepared food items?

**SHANNON McCORD:** Yes, I do.

**CRAWFORD:** And do people with SNAP buy those items?

**SHANNON McCORD:** If it goes into a cold case after it's sat. If it-- we don't sell it, we move it into the cold case, it is now eligible for SNAP purchase.

**CRAWFORD:** So there-- so I guess I'm just trying to figure out if you are selling some food to SNAP participants that you already have to treat differently by sales tax?

**SHANNON McCORD:** I don't understand the question.

**CRAWFORD:** I was just wondering if you are selling food that, that is subject to sales tax because prepared food-- if any, if any SNAP participants are able to buy that food?

**SHANNON McCORD:** We have to retag it.

**CRAWFORD:** You have to retag it.

**SHANNON McCORD:** When, when it goes to the registers, it will be as a hot deli, deli item, if it's come straight out of the hot case. But as soon as we cool the prod-- the, the product properly in a certain proper amount of time, then we can move it into the cold case and we have to retag that as a cold item.

**CRAWFORD:** OK, thank you.

**FRIESEN:** Thank you, Senator Crawford. Senator McCollister.

**McCOLLISTER:** Thank you, Vice Chair Friesen. Is a salad bar taxable?

**SHANNON McCORD:** I-- no, it is not.

**McCOLLISTER:** Why is that?

**SHANNON McCORD:** It's a cold item.

**McCOLLISTER:** Thank you.

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**FRIESEN:** Thank you, Senator McCollister. Seeing no other questions, thank you for your testimony.

**SHANNON McCORD:** Thank you very much for all your hard work.

**JORDAN RASMUSSEN:** Good evening, Vice Chairman Friesen and members of the committees. My name is Jordan Rasmussen, J-o-r-d-a-n R-a-s-m-u-s-s-e-n. I serve on the policy staff at the Center for Rural Affairs. We want to start by saying, thank you, and share our gratitude with the committee for their efforts to bring forward this amendment of AM1381 to address our state's tax imbalance and to draw in the revenues that are really needed to adequately support our schools and communities. Although we recognize that farmers and ranchers often bear the greatest property tax burden in our rural areas, our mission is to support policy that build strong rural communities and provides opportunity for all rural people and AM1381 makes significant strides towards that effort. However, adjustments can and should be made to ensure that this is policy that works for all rural Nebraskans. As has been touched upon a number of times tonight, our tax base has not changed and evolved over the last decades as we moved away from being strictly reliant on agriculture and moved towards looking at moving away from manufacturing goods to services a knowledge based economy. Nebraska's tax code does not reflect that decade's long trend. This amendment seeks to make those adjustments by taxing more services that Nebraskans are purchasing every day, but the amendment also leaves on the table opportunities to do more. True reform and modern-- modernization of our tax system will require further broadening of our tax base, adding additional exemptions on services should also be included in this amendment. Drawing in these additional revenues along with closing other tax loopholes and further increasing cigarette tax can help offset the need to raise the sales tax to three-quarters of a cent. A half-cent sales tax coupled with an increase in the earned income tax credit would significantly lessen the regressivity of this package and its impact upon low- and middle-income rural residents. We also have some concern with the reduction in valuations on agricultural land outside of the TEEOSA formula. It has its merits in addressing the property tax issue, but we feel that there are ways that we can address that better which would be reducing it-- with strictly within the TEEOSA formula to draw in equalization aid to a significant number of our rural schools without creating those gaps in local funding for government-- for funding for local governments. We recognize that government spending should be checked, but placing that stranglehold

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on our rural counties and communities that are already struggling to maintain roads and basic services, creates a loss for rural residents and communities. Recognizing the needs for schools and services that are at the heart beat up their communities, rural Nebraskans are not looking to relinquish their entire obligation to help pay for these community assets. They're simply asking for balance in the way the state meets its obligations to pay for education. AM1381 creates a path in that direction, but one that should be amended to further broaden the sales-- the tax base, protect our county and community assets, provide equity in school, and funding to ensure tax policy works for all Nebraskans. Thank you.

**FRIESEN:** Thank you, Ms. Rasmussen. Any questions from the committee? Seeing none,--

**JORDAN RASMUSSEN:** Thank you.

**FRIESEN:** --thank you for your testimony. Welcome.

**JESSICA SHELBURN:** Thank you. Good evening, Senators. First, I'd like to say thank you for all of you being here tonight and being engaged in this process. My name is Jessica Shelburn. I'm the state director for Americans for Prosperity, J-e-s-s-i-c-a S-h-e-l-b-u-r-n. On behalf of our 45,000 activists across the state we are dedicated to driving long-term solutions to our state and country's biggest problems. And with that said, I'm here to oppose LB289 and AM1381. I would like to commend the committee for your hard work, your commitment to find property tax relief for Nebraskans. Unfortunately, we do not think that this amendment is the best form. We do support the proposed transition in funding for K-12 education and moving that more to the state. That is a positive change. The trick, as you are all well aware, is how do we finance that? There are some additional provisions of AM1381 that are a step in the right direction. The bill eliminates several sales tax exemptions for currently untaxed goods and services. However, to be clear, eliminating these exemptions is only one part of the equation. I've talked with several of you over the past few months regarding some of these exemptions. So this will come as no surprise that while we support removing some of the 175 sales tax exemptions, these exemptions represent the government picking winners and losers, as we've heard tonight, and AM1381 furthers that government picking of winners and losers by only selecting a handful of industries that will lose their exemptions. Reducing the overall number of exemptions in our tax code is an improvement in the structure, but would result in

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tax increases for many taxpayers without a corresponding rate reduction. I would encourage all of you to consider offsetting any provision that increases revenue with across the board rate reductions for the Nebraska taxpayer rather than proposing additional across the board hikes. This cannot be considered revenue neutral when the government is now collecting more revenue than we are current-- than we currently are. We are committed to standing with the people of Nebraska against damaging tax rate increases. As such, one of the major concerns we have with 1381-- AM1381, is the three- quarter cent sales tax increase. Last year the average Nebraskan paid \$2,503 per household in state sales taxes. If this legislation is enacted, that burden will increase to \$2,848, an increase of nearly \$345. This increase would hit the low-income communities the hardest as they already spend a disproportionate amount of their income on sales taxes which has been discussed. This increase in the sales tax rate will only widen the gap between the haves and the have nots in our state making it, making it even harder for those who are currently struggling. We cannot tax our way to prosperity. I know how unpopular it is to tell state and local government agencies that they must reduce spending, but it has to happen. We will never ease our tax burden without controlling spending. The continuation of a tax and spend policy will continue to fail Nebraskans. It is our [INAUDIBLE] that although AM1831 does take some steps to control spending and may provide property tax relief to a few initially, it will only be a matter of a year or two and we'll be right back in the position that we're in today. And my red lights on, so I will wrap up.

**FRIESEN:** Thank you. So we're-- any questions from the committee?  
Senator Bolz.

**BOLZ:** Just one very quick question. Do you happen to have a number? It was very helpful to hear what the increase for the average taxpayer would be. Do you happen to know the median? I just wonder if the, if the impact is skewed.

**JESSICA SHELBURN:** I think we did that based off at the median-- the median income for an average family.

**BOLZ:** You said, you said, average. I'm asking median.

**JESSICA SHELBURN:** I will get you that number.

**BOLZ:** I, I just-- I wonder if it's skewed,--

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**JESSICA SHELburn:** OK.

**BOLZ:** --if higher income earners are paying significantly more. What is, what is--

**JESSICA SHELburn:** The median.

**BOLZ:** --the median?

**JESSICA SHELburn:** OK.

**BOLZ:** Yep, thank you.

**JESSICA SHELburn:** I will, I will get that for you, Senator.

**BOLZ:** Thank you.

**FRIESEN:** Thank you, Senator Bolz. Any other questions from the committee? Senator Murman.

**MURMAN:** Yes. Thanks for coming in, Jessica. You suggested that we cut our way to reducing property taxes. The-- I don't have the-- I don't have the figures right in front of me, but the biggest share of our budget is education and health and human services. So you, you would suggest we would cut them a certain percentage across the board?

**JESSICA SHELburn:** I'm not saying that we need to cut and at the state level, but at some point we have to do something to control spending at our local levels, because that is where our property taxes is being driven at. And, yes, it has come from years of the state reducing assistance to cities, counties, state aid, so it's happened over time. We are not going to get out of this over time. We can't miraculously cut our way out of this situation, but we need to control spending at all levels of government, if we are ever going to achieve meaningful tax relief.

**MURMAN:** I totally agree with you. But--

**JESSICA SHELburn:** Where do you start?

**MURMAN:** Yes, yeah, because across the board, how would we do it?

**JESSICA SHELburn:** And I'm reviewing the budget right now, so I'll have some more suggestions for you next week.

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**MURMAN:** OK, thank you.

**FRIESEN:** Thank you, Senator Murman. Senator Groene.

**GROENE:** Thank you. So we're just, we're just trying to create more revenue and make it more fair. Do you know how big this room would have to be if you start telling the schools we're gonna cut your spending by 10 percent in the county?

**JESSICA SHELURN:** Oh, I don't envy your job at all, Senator Groene.

**GROENE:** Well, it's easy to sit there and say, well, this is what we got to do. Thank you.

**FRIESEN:** Thank you, Senator Groene. Senator McCollister.

**McCOLLISTER:** Yeah, thank you, Senator Friesen. If I understood you correctly, you're saying that we should broaden our sales tax base and create a fund by an equal amount, lower the rates. So you're objecting, if I'm not mistaken, to moving some of that surplus revenue into property taxes. Is that, philosophically, what you're suggesting?

**JESSICA SHELURN:** Well, I think that we are going to get to a better place, if we look at our tax policy in general. If we can broaden that base, remove some of those exemptions, lower our rate, we're spreading that pain out amongst more Nebraskans. And we can bring in-- I was speaking with the senator yesterday and I didn't include in my testimony because I didn't have the opportunity to verify the numbers, but they were telling me that if we did that and removed many of the exemptions, with the exception of business inputs, we would be able to generate enough revenue to cover this plan and potentially even lower the rate. And so I think that that's something-- you know, if we're looking at everything and putting everything on the table it needs to be considered instead of just picking those small little sections and groups to single out. We need to have-- everything should be on the table.

**McCOLLISTER:** I agree. Thank you.

**JESSICA SHELURN:** Um-hum.

**FRIESEN:** Thank you, Senator McCollister. Any other questions on the committee? Seeing none, thank you for your testimony.

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**JESSICA SHELURN:** Thank you.

**FREDERIC OLTJENBRUNS:** Are we having fun yet?

**FRIESEN:** Almost.

**FREDERIC OLTJENBRUNS:** Well at 7:00 this morning, I was still in Warrensburg, Missouri. My name is Frederic Oltjenbruns, F-r-e-d-e-r-i-c, last name O-l-t-j-e-n-b-r-u-n-s, and I'm still awake enough to remember it. I'm a farmer. We formerly farmed at Ceresco, Nebraska. We moved to Warrensburg in 2018, and the pure and simple reason was we were driven out by high farm property taxes. In 2017, Lancaster County made more by a substantial margin off of my farm than I did. And at the time we were farming over 1,000 acres, and our banker said we were doing everything right. But we could see if we continued on this course, that inevitably we would fail. So we sold our land and we moved our entire operation 300 miles. And I want all of you to know how much from the bottom of my heart I appreciate the work you're going to, to try and straighten this mess out. I don't envy you. But as a farmer, I deal with problems on a daily basis or a standing joke is, I'm a farmer, every day is Monday, and it tends to be that way. So as a result when we are confronted with problems we try to simplify and get the problem solved, because guess what, right after that one there's gonna be another one. So my suggestion, and that's all it is from a simple farmer, is rather than trying to continually reinvent the wheel and beat yourselves over the heads with all of these facts and figures. Wouldn't it be possible to simply say for every dollar that is committed we are going to reduce spending by one penny, instead of a dollar? Whoever gets the money gets 99 cents. That may be very pedestrian. It's not flashy. But if you did the math and figured out how much that amounts to, we may not have to have so many discussions about how to raise taxes. I believe that we should prioritize. I don't want any kid to be shorted on education. And in defense of, Senator Brooks, you go girl. I admire the way you are so tenacious in defending your constituents.

**PANSING BROOKS:** Thank you.

**FREDERIC OLTJENBRUNS:** But the reason I'm so appreciative of what you've done as far as trying to reduce farm property taxes is sad to say, but after incomes are adjusted there are a great many farmers and ranchers that wind up with less income than your constituents. And when your people and many farmers and ranchers are in financial peril,

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that means that every one of you is our last best hope of bailing this mess out. So I commend all of you, and that's my two cents' worth.

**FRIESEN:** Thank you. Are there any questions from the committee?  
Senator Brewer.

**BREWER:** Thank you. First off, if I got it right, you made the trip all the way from Warrensburg to here for the sole purpose of sitting in that chair and doing the testimony you just gave us.

**FREDERIC OLTJENBRUNS:** Yes, sir.

**BREWER:** And you were part of the conga line of, of musical chairs?  
[LAUGHTER]

**FREDERIC OLTJENBRUNS:** If I had known it was gonna be this way, I would have brought my razor, because I'm due.

**BREWER:** Well, thank you. I mean, that's, that's heartwarming that you do that and share your story.

**FREDERIC OLTJENBRUNS:** We're all brothers and sisters and I may not live in Nebraska anymore, but I appreciate what you people are doing. I honestly do. And if it had happened maybe five or six years sooner, I would still be a Nebraskan. I take no pride in the fact that I had to leave my home and my friends and 150 years of family history. But I figure that this may be my last time to address all of you and properly thank you, and I felt a duty.

**BREWER:** Well, we're poorer for not having you with us, but let's see if we can't bring some good out of this experience. Now you, you left, you were in Lancaster County, you got 1,000 acres.

**FREDERIC OLTJENBRUNS:** Um-hum.

**BREWER:** How much--

**FREDERIC OLTJENBRUNS:** We had 585.

**BREWER:** And how much did you buy in Missouri?

**FREDERIC OLTJENBRUNS:** Eight hundred and fifty-five.

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**BREWER:** And just out of curiosity if you would compare your property tax bill when you left here to what you had to pay in your first year there, what was the difference?

**FREDERIC OLTJENBRUNS:** It was staggering. In 2017, on 585 acres up at Ceresco, Nebraska, nondescript, nonirrigated-- rocks no extra charge. We call it heavy topsoil. It's more chic that way. That 585 acres cost us \$50,000 in property tax. That same year we had an income after expenses of \$30,000, and out of that we still had to pay our health insurance. So how do you farm over 1,000 acres and wind up on the poverty line when your banker is telling you you're doing everything right? That's a-- you know, it's a bad situation. And I'm, I'm one of the lucky ones. There are people that are in far worse condition than we were. And it's gotten even worse because their taxes have gone up even more, so.

**BREWER:** And you compare that to what you're paying in Missouri now?

**FREDERIC OLTJENBRUNS:** One thousand one hundred and forty-three dollars and fifty cents. Eight hundred and fifty-five acres of prime Missouri bottomland on the Blackwater River. Topsoil two-feet thick, and we get a third more rainfall.

**BREWER:** None-- no heavy topsoil?

**FREDERIC OLTJENBRUNS:** It's for real down there. I haven't broken a disc blade yet.

**BREWER:** Well, again thank you.

**FRIESEN:** Thank you, Senator Brewer. Any other questions from the committee? Senator Bolz.

**BOLZ:** Sir, I, I like you. I respect you. I'm pleased that you're here. So I, I, I do feel like I need to respond to the comments about cutting the budget and I hope you don't take that personally. I hope, I hope you just understand that--

**FREDERIC OLTJENBRUNS:** I'm a farmer.

**BOLZ:** I have listened to testimony all afternoon and I've-- I'm willing to do something on this issue. I work hard regularly to try to understand this issue, but I can't sit here and continue to listen to

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comments that oversimplify what it means to balance the state budget.  
State employees--

**FREDERIC OLTJENBRUNS:** I'm not trying to diminish your efforts.

**BOLZ:** Sir, I have the microphone, sir. I like you. I respect you, but I have the microphone. The state employees deserve health insurance. The cost of health insurance increases. State employees deserve salary increases, and that's a part of our state budget. State troopers deserve vehicles that work, and that's a part of our state budget. Students who are learning at our higher education institutions deserve to have the lights on. And so I-- I'm not-- I, I-- please, forgive me. I'm not trying to be impolite at all, sir, but I won't let this conversation continue to be oversimplified to the statement that we can simply cut our way out of this problem. We can't cut our way to prosperity, and we can't cut our way to a solution to this while ignoring all of the other needs of all of the other things that make this state grow, so. Forgive, forgive my, my moment.

**FREDERIC OLTJENBRUNS:** You don't need forgiveness.

**BOLZ:** Yeah.

**FREDERIC OLTJENBRUNS:** Like I said, we're family here. My response is, in the last three years that we operated in Nebraska, after we paid our taxes, after we paid our lender, we didn't have any money left to put into infrastructure at all. That was our universe, none. No tractors, no bins, no repairs to buildings. We had just enough to live on. That's what finally drove us over. By the time you pay off the banker and you pay off the taxes, it's a race to see who gets what little is left. And since I'm a farmer and I'm self-employed and we have to pay for our own health insurance, take that out of \$30,000, and I would gladly work for the salary of a state trooper, or a government employee. And I don't want you to take offense at that, because we're all in this together. But at a certain point, is there anybody that suggests that out of your own personal budget for every dollar that you have you couldn't live on 99 cents instead of \$1.00?

**BOLZ:** After two years of austerity and actually three budgets that cut our state budget, I, I don't think that the correlation with a personal budget is fair anymore. Just like you can't run your operation without reasonable increases in new bins. I can't run the state with, with-- I, I-- that sounded terribly arrogant, forgive me.

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As an Appropriations Committee, we can't run the state without fare increases. I'll leave it there. Sorry to, to ramble.

**FRIESEN:** Thank you, Senator Bolz. Any other questions? Senator Murman.

**MURMAN:** Yeah, thank you a lot for coming in. As I traveled my district in the last year I talked to-- most farmers were in very similar situation you were in. They looked to rent ground or graze their cattle across the border in Kansas because they could do it a lot cheaper there. Most were barely having enough income-- any income to live on after paying property taxes-- one of the big expenses. Myself, I paid about-- I'm wondering how you paid your health insurance being self-employed, because myself last year I had to pay \$34,000 in health insurance being self-employed.

**FREDERIC OLTJENBRUNS:** We-- ours wasn't that bad. But I think we were averaging right around \$1,600 for my family and that didn't leave a whole lot left for heating and cooling and everything else. That's why I was identifying with Senator Brooks, because-- you know, she's got people in the same boat. But instead of farmers, they're living in town. So my, my feeling is when you've got rural and urban both in the same boat at the same time with the same problem, there's got to be some creative way to find a solution. And same old, same old isn't working. We've been trying it for 15 years, and I'm the poster child for the fact that it didn't work. So-- and as far as what you were saying about the cash rents and stuff, property taxes have gone up so much that landlords have exponentially raised the cash rents to the point where I actually turned away 200 and some acres I've been farming at Wahoo for 20 years, because I'm not a recreational farmer. I can't wear my equipment out and commit my time if I'm not gonna make at least a little bit. So we were actually walking away from ground. At one time, we were farming 1,700 acres, and at a certain point it was no longer a case of, well, I can make more money, I can get a bigger piece of the pie when the pie gets bigger, it was actually a detriment to expand because if you're losing money on every acre you farm. If you have more acres, you're just losing more money.

**MURMAN:** I'm a farmer myself, so I totally understand what you're talking about. Thanks, a lot.

**FRIESEN:** Thank you, Senator Murman. Senator Pansing Brooks.

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**PANSING BROOKS:** I, I just wanted to thank you for bringing up the, the fact that, that we are talking also about poor farmers, not poor, too bad farmers, poor farmers that are truly struggling. And I, I have a lot of compassion for that and we don't hear a lot about that story. So I really appreciate your coming. We, we really do not hear about farmers who are struggling monetarily other than through taxes, and that's a struggle, too. And I, I get it. I understand that. Please don't write me about, oh my gosh, you're saying that. But really people that are, are in poverty and farmers that are really struggling to make ends meet and to rather, rather than some of the bigger farms that we hear about that are, that are thriving, they have their own issues and their own problems, too, and the taxes are high. I get it, I get it, I get it, so. But again, we are not hearing about farmers--

**FREDERIC OLTJENBRUNS:** You know,--

**PANSING BROOKS:** --very much who are on the margins who are really having troubles.

**FREDERIC OLTJENBRUNS:** --one of the reasons why, is because we're territorial and we're proud and we're not very good at explaining why things are the way they are. I would love to have lots of time with Senator Bolz, because I think we'd be buddies before it's over with. I-- she kept apologizing and there was no reason to apologize. Because like I keep saying, as far as I'm concerned, we're all brothers and sisters, and I don't know of any brother that wants to see his sister in pain. I don't know any sister that wants her brother to have a bad time or financial difficulties. We're all family, but there's a bunch of us right now that are suffering.

**PANSING BROOKS:** Right.

**FREDERIC OLTJENBRUNS:** And like I said, you guys are our last, best hope.

**PANSING BROOKS:** Well, we appreciate your time. Thank you very much for coming.

**FRIESEN:** Thank you, Senator Pansing Brooks. Any other questions?  
Senator Groene.

**GROENE:** So you're making more than \$30,000 a year now?

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**FREDERIC OLTJENBRUNS:** We're spending a pile now because we got to redevelop infrastructure. When we moved down there we had the land but we only had one building and it was too small and they didn't have any grain bins at all.

**GROENE:** Well, I-- your probably the least paid person that sat in that chair. Most though school administrators worry about children are making \$150,000 or more to find benefits and insurance. They've never worried about their health insurance in years, but it's about the children.

**FREDERIC OLTJENBRUNS:** You know, one of the bad things about getting to our age, is getting to our age.

**FRIESEN:** Thank you, Senator Groene. Any other questions from the committee? You know, this is the second time I've listened to you talk, and I do appreciate you coming up.

**FREDERIC OLTJENBRUNS:** It's a privilege. It was an honor to come and talk to all of you.

**FRIESEN:** It's too bad we had to lose, too bad we had to lose a good farmer.

**FREDERIC OLTJENBRUNS:** Well, what can I say, at least I'm still farming. But, you guys keep up the good work. And just as a word to Senator Linehan and Senator Groene, if I had one-sixty-fourth of the intelligence that you people have invested in this I could still claim to be a very intelligent man in the central plains. Unfortunately, I don't think I fit that category. But, I salute all of you.

\_\_\_\_\_: Thank you.

**FRIESEN:** Thank you for coming.

**ANN HUNTER-PIRTLE:** Good evening, Senators. My name is Ann Hunter-Pirtle, A-n-n H-u-n-t-e-r hyphen P-i-r-t-l-e. I'm the executive director of Stand for Schools, a nonprofit dedicated to advancing public education in Nebraska. Stand for Schools opposes AM1381 to LB289. We appreciate the Revenue Committee's hard work on property tax reform which we strongly agree is needed. We also appreciate the, appreciate the committee's recognition of the need to raise revenue to provide property tax relief. We've testified in favor of several bills this session that would provide property tax relief while ensuring

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sustained and adequate funding for K-12 education. However, we have concerns about LB289 for school districts and as such cannot support the current bill as amended. School spending is not the reason for the state's property tax challenges, underfunding of K-12 education from the state level is one major cause. We appreciate the additional funding to TEEOSA in this proposal, and yet LB289 takes two problematic actions against school levy ability simultaneously. First, the bill decreases school districts' tax base by reducing valuation of AG land as well as commercial and residential property. The bill also lowers the maximum levy which will impact districts ability to raise sufficient revenue and if state aid is reduced in future years will deeply hurt school districts ability to provide quality education in the future. Additionally, LB289 bases school budget growth on unpredictable Consumer Price Index rates or 2.5 percent, whichever is lower. The CPI does not account for growing staff costs due to the rapidly rising cost of health insurance. A ruling from the CIR to increase teacher salaries or growing costs for special education. This proposal hurts local control and shrinking budgets due to these factors will prevent schools from keeping up with student needs over time resulting in larger class sizes and lower-quality education. Further, we have concerns about adding foundation aid to the school funding formula when equalization aid has already been historically underfunded. Nebraskans know strong K-12 public schools fuel our state's economy, and they consider school funding a top priority. There are components of other tax-- property tax relief proposals including elements of LB314 and LB614 that would reduce schools reliance on local property taxes, preserve funding, and provide for a thorough and necessary review of the TEEOSA formula. For these reasons, we oppose the current bill. Thank you for consideration.

**KOLTERMAN:** Thank you, Ms. Hunter-Pirtle. Any questions? Seeing none,--

**ANN HUNTER-PIRTLE:** Thank you.

**KOLTERMAN:** --thank you for your testimony.

**JASON BUCKINGHAM:** Good evening, Chairpersons Linehan, Kolterman, and Groene, and members of the Revenue, Retirement, and Education Committee. My name is Jason Buckingham, J-a-s-o-n B-u-c-k-i-n-g-h-a-m. I'm the business manager at the Ralston Public Schools and a member of the Greater Nebraska Schools Association. I appreciate the opportunity to appear before you today to speak on behalf of our students, staff, and the Ralston community. I appear before you today in opposition of

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LB289. The Ralston Public Schools understand the great difficulties facing the Legislature at this time in regards to the imbalance that exists in properly funding public education in our state. The current model of funding puts a very heavy burden on the property tax owner and specifically owners of agricultural land. We'd like to see some adjustments made to the current funding mechanism, but we feel that the proposals outlined in LB289 would have a negative impact on our district. Changing the current TEEOSA formula as presented in this bill is problematic for districts like ours. And I'm going to amend my testimony because it's getting late. We've heard quite a bit already about the issues of this particular bill being disequalizing. Any, any method that we have to try and correct our property tax issues that we have in the state that is disequalizing we are in stand in opposition. Secondly, and most importantly, we're in opposition to the language drafted regarding option enrollment funding. Funding for option enrollment was reduced two years ago through the passage of LB409. We currently only receive 95.5 percent of the statewide average basic funding per student allotment. The language in LB 289 would result in a projected reduction in net option funding of \$731 per option student for the '20-'21 year. This formula adjustment will have the impact of further reducing the amount of funding for option enrollment students and will erode the abilities of school districts to accept students from outside of their boundaries, thus diminishing the options for school choice. Currently in our district, 28 percent of our students come from outside of our boundaries. I can tell you with great confidence that our district takes pride in providing educational options to students and their parents. Providing these opportunities do, however, come at a cost which is offset by net option funding. The ability to accept and be fairly compensated for students who attend our schools but do not live in our district allows our facilities to be fully utilized and allows our districts to maintain its current level of staffing. Students from diverse backgrounds choose the Ralston Public Schools due to the opportunities we provide. The reduction of option roll-- enrollment funding may prevent some districts like ours from readily accepting students and thus negative-- negatively affecting school choice. And finally the last thing I had in this, but we've covered this multiple times, is our concerns that we have with using CPI as our-- as a mechanism for slowing growth in spending. Of course, we're opposed to that as well. In summary, we are in agreement that our current state of schools funding is in need of adjustment and the property taxes are an issue statewide. We simply request that further examination be put in the

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changes in this-- proposed in this amendment. We feel specifically reducing net option funding runs counter to the philosophy of school choice for all students. Funding option enrollment students at a lesser rate than resident students sends a message from the state that option-- students are somehow of lesser value in the eyes the Legislature. With that I'll conclude my testimony, and, and try and answer any questions you may have.

**KOLTERMAN:** Thank you for coming. Any questions? I just have one question. The last time you testified, weren't you the last testifier here?

**JASON BUCKINGHAM:** I was-- that was, that was a Valentine's Day that I'm still paying for at home, so I'm gonna try and, and mend some fences.

**KOLTERMAN:** Well, we're getting you out of here about 15 people earlier.

**JASON BUCKINGHAM:** Yes, yep-- so I'm, I'm getting better. I'm not the last one tonight.

**KOLTERMAN:** Thank you.

**JASON BUCKINGHAM:** All right, thank you.

**DOUG OERTWICH:** Good evening. We don't say that too many times here, do we? Mr. Vice Chair, members of the three committees. My name's Doug Oertwich, D-o-u-g O-e-r-t-w-i-c-h. I'm a farmer from Pilger, Nebraska. I came here today to talk to you because on the real-- on the real estate side on my taxes on the farm I purchased from my aunt, the taxes are now higher than the cash rent was 23 years ago. So I was here and we testified on, on a legislative resolution, LR8CA. I was here to support that, nothing happened to that. So a legislative resolution that goes to the voters, and it never got anywhere. How come? Let's put a cap on spending. That's a start. You say-- Senator Bolz said, we can't cut, cut, cut, but we can have a start somewhere. We've already tried pumping the state aid in the school system through the burden of the property tax system. We did that in 1990, creating TEEOSA. I think we need to write a new computer program for that. I've studied a year and a half, and I can't figure it out. We've got people here that are smarter than me and they can't figure it out. So we've got to change something there. We just can't keep robbing, robbing Peter to pay Paul. We're, we're doing a tax shift here. It's a tax

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shift, a tax shift, and a tax shift, so there's no cuts. So we've got to make some changes. I'm all, all, all about making sure our schools are funded, but that's not the problem. The article that was out in the Omaha World-Herald reported that Nebraska, Nebraskans spend more per student on education than all the surrounding states. And I'm sure Senator Groene is gonna have something to say to that later. As a farmer, I want to see real estate property tax relief. I think this plan just shifts it, and that's not a good start. We need to have discipline in spending. LR, LR8 would have done that. In a few short years, we didn't get here overnight, and we're not gonna get out of this. It's gonna take some time. Spending cuts take some tough decisions and we're gonna have to do that. So, as Senator Bolz said earlier, I don't know if it was calculus, trigonometry or algebra for many of my teachers while I sit here and, and listen all day, but I what I can't figure out TEEOSA. So we need to make some changes. So I'll take some questions if anybody has any.

**KOLTERMAN:** Thank you, Mr. Oertwich. Any, any questions? Appreciate you coming.

**DOUG OERTWICH:** Jeez, that was easy.

**KOLTERMAN:** Mr. Slone.

**BRYAN SLONE:** Chairs Linehan, Kolterman, and Groene, and members of the committees. Thank you for having this hearing tonight. Given the lateness of the evening, I will paraphrase if it's OK with everyone else. My name is Bryan Slone, B-r-y-a-n E. S-l-o-n-e. I'm the president of the Nebraska Chamber of Commerce and Industry. I'm here today on behalf of the Nebraska Chamber, the Greater Omaha Chamber and the Lincoln Chamber of Commerce in opposition to this amendment. I've also submitted written testimony on behalf of NFIB. In a nutshell, we've had these discussions before. Nebraska is very much at a crossroads, from a tax and spending standpoint and from an economic spending standpoint. With less than 1 percent population growth, 1 percent GDP growth, and inflation at very low numbers-- even when we talk about 4 and 5 and 6 percent increases in spending, it's hard to reconcile those two numbers. What we've learned from tax shifts, and for many, many decades now, is that the mere tax shifts have not solved the property tax problem. When I graduated from high school in 1975, state aid was \$40 million. It's now over \$1 billion. The funny thing was in 1975, we had 3,000 more students than we have now. And, and so-- where we have to go with this to, to ultimately solve the

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property tax issue, and it is a real issue, is we, we have three concerns with this bill. One, it makes us less competitive as a state by raising sales tax rates. This bill would put us in the top 20 states in terms of sales taxes. We're already in the top 20 states in property taxes and income taxes. That trifecta of taxes would make us very uncompetitive as a state with other states. And ultimately we're gonna have to generate growth at much higher rates. Secondly, while there are controls on spending and I congratulate and the, the Revenue Committee, in particularly, Senator Groene, for doing a lot of work. There are still inflators and, and max levy limits in that have the ability to create spending well in excess of our economic growth. And finally, this is not comprehensive tax reform. To really grow this state, we need to have both income tax and property tax reform at the same time and, and really modernize the system, not only for farming, but every industry. And we need to diversify our local economies. Ultimately, if we're gonna solve the property tax issue in the places that I grew up in the western part of the state, we're gonna have to bring more people and more different kinds of businesses into those counties. And then that's true across the state as I travel. So with that, I will, I will stop and, and answer any questions you may have.

**KOLTERMAN:** Thank you, Mr. Slone. Senator McCollister.

**McCOLLISTER:** OK. Thank you, Senator Kolterman. Your first objection, Mr. Slone, is the raising the tax rates. What do you think about spreading the sales tax to more services and perhaps reducing the rate?

**BRYAN SLONE:** Yeah. Generally, generally broadening bases-- I'm an old Reagan administration employee, generally broadening the base is better than raising rates from a competitive standpoint. But generally, states that do this well not only broaden base but they lower the rate. And so instead of having one of the highest sales tax rates in the state, if we-- if they were to broaden the base they would also lower the sales tax rate.

**McCOLLISTER:** So you wouldn't have any objection to that?

**BRYAN SLONE:** It would depend on the process that was undertaken with it with the broadening of the base. Anytime you broaden the base you have to understand the competitive consequences of that. And so Senator Briese earlier had, had data on what other states do. You have to look very carefully at the states around us to make sure you're not

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creating a tax situation that simply moves businesses to other states, because they, they don't tax something that we would.

**McCOLLISTER:** Follow-up question.

**KOLTERMAN:** Go ahead.

**McCOLLISTER:** You advocate income tax reform and property tax reform.

**BRYAN SLONE:** Simultaneously.

**McCOLLISTER:** Yeah, how do you do that without really impacting the state budget?

**BRYAN SLONE:** Well, I think you-- in order to do it without impacting the state budget rather than raise taxes you make some part of base broadening but you also make some part of it in capturing growth. For instance, Senator Hilgers has a bill, LB615, this year. That if there is a windfall in, in taxes at any one year, you capture that growth and you put it towards property tax and income tax relief so you don't lose that when those, when those windfalls occur. That bill also deals with the subject which is also important which is, is funding our cash reserves and making sure that as we think about property tax and income tax cuts that we're also funding the cash reserves to appropriate levels.

**McCOLLISTER:** Thank you.

**KOLTERMAN:** Any additional questions? I just have one comment. Could you tell Mr. Hallstrom next time he can make his own appearance. It's not past his bedtime.

**BRYAN SLONE:** I will, I will, I will pass that message along, Senator. I'd be happy to do so.

**KOLTERMAN:** Thank you. Oh, I'm sorry, Mike or Senator Groene.

**GROENE:** Thank you. The average Nebraska family-- what, what tax do you think they pay the most of?

**BRYAN SLONE:** The average Nebraska family, probably the most they pay is income tax.

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**GROENE:** Average household in Nebraska makes \$56,675. State income tax is \$1,504, state sales tax is \$1,159, and local property tax, if they have to a \$200,000 house, it's \$4,621.

**BRYAN SLONE:** And the question is, how many Nebraskans own houses, Senator? And I don't know that number.

**GROENE:** The two family-- the type of people we want to grow this economy with. People I live around.

**BRYAN SLONE:** Yeah, I, I understand,--

**GROENE:** Everybody I associate with.

**BRYAN SLONE:** --understand there are, there are literally-- there, there's a lot-- there are a lot of Nebraskans including the 20- and 30-year-olds that we're trying to attract and build our work force that don't own houses. But, yes, I, I understand where you're going. So [INAUDIBLE].

**GROENE:** And also charging you income and sales taxes, then turning around and creating a property tax credit, is that not a tax shift?

**BRYAN SLONE:** Charge-- excuse me? One more time. Sorry, Senator.

**GROENE:** Collecting income and sales taxes and turning around and creating a property tax credit fund,--

**BRYAN SLONE:** With those revenues?

**GROENE:** --is that a shift? Is that not a shift?

**BRYAN SLONE:** It is a, it is a, it is a shift from property taxes to sales and income taxes.

**GROENE:** Isn't it the other way around, other way around?

**BRYAN SLONE:** Other way around, OK.

**GROENE:** It's late.

**BRYAN SLONE:** Yes, it's late. Sorry.

**GROENE:** Anyway,--

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**KOLTERMAN:** Thank you.

**BRYAN SLONE:** Yes.

**GROENE:** --thank you.

**KOLTERMAN:** Thank you, Senator Groene. Next testifier. Welcome.

**CHAD MEISGEIER:** Good evening, Senators. My name is Chad, C-h-a-d, last name is Meisgeier, M-e-i-s-g-e-i-e-r, and I'm the chief financial officer for Millard Public Schools. I thank you for the time tonight. It's getting late, I appreciate the attention of the committee. We stand in opposition of LB289. However, before I get into the details of that-- first, I'd like to say, thank you. Frankly, it's refreshing to hear that we can't cut our way to property tax relief. On behalf of Millard Public Schools, our average spending per student over the last ten years has been an increase of 1.78 percent per year. And I chose ten years because as, Senator Linehan, taught me well don't choose the base here that included the federal stimulus money. So we went one year before that to make sure that we weren't artificially inflating the base. The reason we stand in opposition, several factors. First of all, the averaging adjustment is about \$2.8 million for Millard Public Schools. The way that works in the formula is generally it rewards the lowest spending schools. So we requestfully-- or respectfully request that that remain in the formula. Second, while this is a positive impact for Millard Public Schools in the first year, I think you need to look at the future years and as you heard before difficult to model. But there are some pieces to this legislation in future years that are potentially problematic. One, is the cap on the spending of CPI between zero and 2.5 percent. As a low-spending school district where we've already been cutting for the last decade to be starting with our current baseline and having a cap on us is problematic. Also, I think you really need to look closely at what happens with the local formula contribution in future years. As the Department of Education testified, the way this is set up is well-intended as property levies drop over time, TEEOSA is intended to make that up. But I think what you're gonna find is that's a quicker decline and something that may not be sustainable for the state to continue to fund. For example, Millard Public Schools, it depends on what the CPI does in future years. I don't have that crystal ball any more than anybody else, but we might go from 95 cents, to 90 cents, to 88 cents, and that keeps

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pushing things up. Knowing that it's been a long night, I'll just wrap up there and ask if there's any questions.

**FRIESEN:** Thank you, Mr. Meisgeier. Any questions from the committee? Senator Groene.

**GROENE:** You educators do understand a big part of this bill is to property taxes?

**CHAD MEISGEIER:** Yes, sir.

**GROENE:** And if we allow you to increase your levies with valuations, there's no property tax relief. You do understand that?

**CHAD MEISGEIER:** I do understand that. There are some elements that remain even if you take that out that are very effective, in my opinion, for property tax relief.

**GROENE:** In, in LB289 or in existing TEEOSA?

**CHAD MEISGEIER:** In LB289. So for example the lowering of the percentages from 100 percent to 90 percent, the lowering of agricultural from 75 percent to 65 percent, those may be sustainable in future years.

**GROENE:** It's all sustainable if we fund it.

**CHAD MEISGEIER:** It is.

**GROENE:** You haven't ever worried about the tax-- property tax payer being able to fund it, have you?

**CHAD MEISGEIER:** We have.

**GROENE:** Maybe they can't, maybe they can't. Thank you.

**FRIESEN:** Thank you, Senator Groene. Any other questions from the committee? Seeing none, thank you for your testimony.

**CHAD MEISGEIER:** Thank you.

**KRAIG LOFQUIST:** Good evening. My name's Kraig Lofquist, K-r-a-i-g L-o-f-q-u-i-s-t. I'm the chief administrator in Hastings, Nebraska at ESU9, and as of July 1, 2019, I'll be the executive director for the Educational Service Unit Coordinating Council. It is in this capacity

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that I share my thoughts in opposition to LB289 and the subsequent amendment. The budget for each Educational Service Unit is reflective of four different sources of funding including core service funding, levy funding, contracted services, and grant funding. Beginning with the 2009-10 year, the total appropriation for core service funding was \$15,559,270. This year '18-'19, the total appropriation for core service funding for ESUs in Nebraska is \$12,814,612. Each year core funds are either reduced or provide at a zero percent growth. As core funding's decrease-- core funding decreases, ESUs become more reliant on property taxes and or increasing costs back to member school districts to contracted services. Currently, six ESUs are unequalized. The second source of funding as mentioned earlier is levy funding, which is capped at one-and-a-half cents for ESUs. As this level of funding decreases through lower valuation, costs are more than likely passed on to member districts through contracted services. The third source of funding for ESUs is contracted services. As stated earlier, as core funding and or levy funding decreases the costs for contracted services will increase, which passes the burden for service support to member school districts. The fourth source of funding is grant sources. As core and levy funds decrease, grant sources become more competitive and less stable in regard to the budgeting process. In regard to sustainability of any grant opportunities/project, continued decreases in core and levy funding negatively impacts the sustainability efforts for the grant. Finally, regarding grant funding these funds have numerous requirements and limitations, but most of all they are never predictable or sustainable. We would respectfully ask the committee to take into account the impact of the reduced, the reduced real estate valuation mechanism by making adjustments to the levy authority and or supporting an increase to core funding. Delivery of services will be severely, adversely impacted without those adjustments. Thank you for accepting my testimony.

**FRIESEN:** Thank you, Mr. Loftquist. Any questions from the committee? Senator Crawford.

**CRAWFORD:** Thank you, Vice Chair Friesen, and thank you, Mr. Loftquist, for being here. You mentioned that there was a one-and-a-half-cent cap for ESUs. Are you at that cap?

**KRAIG LOFQUIST:** Yes.

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**CRAWFORD:** [INAUDIBLE]. Thank you. Oh, and how many do you think other ESUs are at that cap? Or do you know?

**KRAIG LOFQUIST:** All but one, and I'm not sure where they are now. I don't have the updated figures.

**CRAWFORD:** Thank you.

**FRIESEN:** Thank you, Senator Crawford. Any other questions from the committee? Seeing none, thank you for your testimony.

**LOY TODD:** Senator Friesen, members of the committees. My name was Loy Todd, that's L-o-y T-o-d-d. I'm the president of the Nebraska New Car & Truck Dealers Association, whose 200 members expect me to come here and testify in opposition to this bill and amendment. That being said, we're gonna venture to something a little bit different. When the proposal to increase the general sales tax was made, one of the things we were looking for is how that tax is gonna be distributed. Because traditionally in this state, we fund our highways by user-type fees and the sales tax on motor vehicles has historically gone to the Highway Trust Fund. This bill or this amendment will divert that increase and put it into a property tax credit fund. And so for that reason, one of the things that we at least want the committee to consider is not breaking that tradition. We understand you've got a problem. You have to have funding to, to address it. We get it. If you end up increasing the sales tax on motor vehicles, my members aren't leaving the state. We're not gonna shut down. We're gonna, we're gonna sell all the cars we can sell to the, to the consumers. And what they'll do is react to this by, by-- some of that money is gonna come off the table and it's gonna go to taxes as opposed to the product or-- so somebody might buy a lesser car or they might buy-- make a different purchase or put it off for a little while. But-- you know, this is something-- we're all in this together and we get it, OK? But there are, there are some ways that would be better than others as far as taxation of motor vehicles. And motor vehicles are somewhat unique in that we're subject to the sales tax, our products are. They're also subject to property tax every year. They're subject to lots of other taxes. And some of them state, some of them local. We've got, we've got motor vehicle fee, we've got registration fees, we've got EMS fees, we've got the DMV cash fund, we've got the state recreational road fund, we've got county general fund, plate fee per plate, and, and we also have wheel taxes that run in Omaha, anywhere from \$50 to \$175, or in Lincoln from \$74 to \$370 per, per vehicle. And I think

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Lincoln has already announced the next three increases in that tax. And so it's just something that, that we're there, we will cooperate in every way we can. Our biggest concern is, we don't want to do anything that's gonna hurt sales. If we-- that that's where we'll go backwards in, in spreading the tax or broadening the base. We have lots of places that, that we could suggest. We want to stay in our lane. We're not gonna suggest taxing anybody else. We'll talk about how you tax our product and, and what we do. With that, answer any questions you might have.

**FRIESEN:** Thank you, Mr. Todd. Any questions from the committee? So there's been a lot of complaints of sales taxes being too high already on-- or taxes are too high on automobiles. That includes the property tax. So I know in the past when we've looked at other sources of revenue, when does the property tax go away on a vehicle? What age?

**LOY TODD:** At 14 years. It goes to zero at 14 years.

**FRIESEN:** How many cars do you think are on the road yet at 14 years old?

**LOY TODD:** Well, our average fleet is actually 12 years old in Nebraska. We have the second oldest fleet in the country. And so we have about 2-- 2.4 million cars registered in the state of Nebraska. And 1.1 million of them pay zero on property tax.

**FRIESEN:** So if we change that minimum of zero to 25 bucks?

**LOY TODD:** You're gonna-- for every dollar you make a minimum, you're gonna raise more than \$1 million, because there are so many vehicles transitioning down to that number. We start off at about 2 percent, and then it, and then it-- it's a schedule that diminishes each year to 14 in which it goes to zero. And so there's a ton of money there. And I, I would also note as far as comparison, we've done surveys and the Platte Institute and others have done this. Nebraska has the fourth highest motor vehicle taxes in the nation. The, the best I've ever seen is one study said we might have the seventh. So you know-- so when we're talking about replacing some taxes and where we rank, I can tell you motor vehicles is contributing a pretty good share.

**FRIESEN:** Where does the property tax portion of that tax go?

**LOY TODD:** Well, it goes-- that's-- it sort of follows the TEEOSA type, type of formula. That-- the motor vehicle tax, and that's what it's

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called, that's the one that's called the motor vehicle tax, 22 percent goes to the county, 60 percent to the schools, and 18 percent to the cities and or villages. And so when you-- when you're looking at those taxes it's, it's a real property tax. I think the expectation of the public is that motor vehicle taxes are sort of all user fees and they all go to roads, but then when you're looking at 60 percent of that motor vehicle tax going to the schools, but that's property tax relief also. I mean, if-- to the extent that picks up the tab for those kinds of things then, then that, that helps the cause because you're gonna get-- have to get the money from someplace.

**FRIESEN:** Thank you, Mr. Todd. Senator McCollister.

**McCOLLISTER:** Yeah, thank you, Senator Friesen. Would it be accurate to say that Nebraska is unusually high when you buy a car in terms of the taxation, and unusually low at that bottom for the older cars 12, 13, 14, 15 years?

**LOY TODD:** Yes, we're, we're pretty unique in, in that regard. And, and-- well, I, I won't go on about it. You've been here long enough.

**McCOLLISTER:** I remember that Platte study.

**FRIESEN:** Thank you, Senator McCollister. Any other questions from the committee? Seeing none, thank you for your testimony.

**LOY TODD:** Thank you.

**MARK WHITEHEAD:** Good evening, Senators. I appreciate the opportunity to make comments related to AM1381. For the record, my name's Mark Whitehead, W-h-i-t-e-h-e-a-d. I've got the opportunity of celebrating our 60th anniversary for Whitehead Oil Company. We operate U-Stops here in Lincoln. Have also had the privilege of being able to serve as chairman of the Nebraska Petroleum Marketers and, and likewise at a national level for the chairman for the Petroleum Marketers Association of America. So it's within, within that lens that I, that I make some of my comments here tonight. Convenience stores help provide the many services and goods Nebraskans from across the state ranging from food items to-- for your-- and items for your car, grocery, quick-food alternatives, beer, and cigarettes. Broadly divided, 80 percent of our revenue in a typical convenience store will come from the gasoline island, but 70 to 80 percent of the profits come from what we sell inside the stores. Of that-- those items that we sell within our stores, a full 30 percent of the revenue comes from

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cigarettes alone. A significant amount of that also comes from packaged pop and other items that are there to be, to be addressed here tonight. Taxing our main product lines, like cigarettes and food items, make it extremely difficult for the convenience stores to stay open. We've all driven across the state of Nebraska and seen the consequences of economic development in rural communities where the local service station and convenience stores have no longer been able to survive. They're a staple of those communities, in many cases, and it's the only place that many people can find grocery items or, or quick, quick-food restaurant item-- items and those sorts of things within those communities. Likewise if you're working a second or third shift, that is truly the only alternative you've got within those communities. When you put this kind of burden in terms of the excise tax increases on the cigarettes and the rest of that within that community it, it borders on teetering that scale. As well, you've heard testimony on the border bleed across the border from a small grocer here. I would say the same thing, cities like Omaha, Nebraska City, South Sioux City, customers all have alternatives across the border. Not only are we missing out on people coming in from Iowa and Missouri to buy services here in the state of Nebraska, but likewise we lose those, those people from Nebraska going across the border as well. In conclusion, a gas station and convenience stores offer more than just convenience, they help create opportunities and jobs across Nebraska. It is our convenience stores open and continue to give Nebraskans a choice that they want across the state of Nebraska. With that, I would be glad to answer any kind of questions you might have.

**FRIESEN:** Thank you, Mr. Whitehead. Any questions from the committee?  
Senator Groene.

**GROENE:** Any-- does, does the property taxes on your, on your business property concern you at all? Is it very-- is it a cost that's detrimental to business at all?

**MARK WHITEHEAD:** Senator, I mean, in, in the broader scheme of things, it's a cost of doing business. I can tell you that where we break even or make small profits on an annual basis when I pay \$9 million a year in state excise taxes on gasoline, property taxes are, are not quite as intrusive as those excise taxes from other places. And, and likewise-- significantly we don't see the excise taxes on cigarettes and beer and those sorts of things we don't see directly, but it certainly contributes to our overhead as well.

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**GROENE:** But those, those are all passed through. I mean, the property taxes that's, that's-- that hits you right there on the--

**MARK WHITEHEAD:** It, it really makes no difference on an excise tax on gasoline. And that's a cost of doing business. Legally, we can't pass through an excise tax on gasoline. In other words if you go to a hotel or on your telephone statement, it'll be itemized-- those, the different excise taxes. When we post a price on the street corner, all, all taxes have got to be included on that. So it's no more-- an excise tax on fuel are no more of-- than any other kind of overhead we've got, whether it's lights or, or cost of doing business or wages or anything else.

**GROENE:** Thank you.

**FRIESEN:** Thank you, Senator Groene. Any other questions from the committee? So what you're saying about-- basically property tax is, as long as everyone else-- your competitors, is paying the same basic tax, it's all a cost of doing business and you pass it on.

**MARK WHITEHEAD:** It's a cost of doing business, but as well, the, the same border bleed scenario could be applied there. If you take a look at Council Bluffs compared to the city of Omaha in terms of alternatives, you'll see an awful lot of gasoline alternatives on the other side of the, of the river and a lot of that has to do with the difference in excise taxes and, and a variety of other reasons and property taxes may very well be a part of that cost of doing business--

**FRIESEN:** [INAUDIBLE].

**MARK WHITEHEAD:** --as well. But border, border bleed is a--

**FRIESEN:** A cost of doing business that just gets passed on though [INAUDIBLE].

**MARK WHITEHEAD:** Yeah, in a lot of different cases.

**FRIESEN:** So if you diversify locations, you'll average and [INAUDIBLE].

**MARK WHITEHEAD:** In all, in all cases, it's just a matter of competition and, and competing. And, and you're right. In the internal

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part of the state, if everybody's on that same playing field, fine; if you're on the border, it isn't always the case.

**FRIESEN:** Thank you, Mr. Whitehead. Seeing no other questions, thank you for testifying.

**MARK WHITEHEAD:** Thank you very much.

**JOHN DILSAVER:** Good evening, Committee Members. My name is John Dilsaver, J-o-h-n D-i-l-s-a-v-e-r. I'm here as a representative of Western Oil, we're based in Valentine, Nebraska. I live in Sarpy County. Also, I'm a member of the Nebraska Petroleum Marketers. I just wanted to-- I've been in front of this committee several times in my role in the business with Western Oil and Nebraska Petroleum Marketers. And I just wanted to reiterate some of the testimony that Mr. Todd gave in reference to this committee's work on motor fuels tax. So more specifically, Section 13 with LB 289 and the AM1381. The allocation of, of, of sales tax on motor vehicles has always been allocated to the Highway Trust Fund. The proposed three-quarter percent increase would be diverted away from roads and into the property tax refund. The current dollars needed for Nebraska road repair during this year is at an all-time high, as we all know. In 2015, I did testify in front of the committee-- you know, at the time the-- you know, there's problems that come up, you're problem solvers. Certainly there was a 6 percent gasoline tax that was passed that originated out of the Revenue Committee and was passed by the full Legislature over a period of four years at one-and-a-half cents per gallon over that four-year period. All those funds do go into the, into the Highway Trust Fund. I just want to kind of reiterate that we want to keep that tradition. And with this proposed amendment that increase on the sale of new vehicles is being parsed and it's just, it's-- you know, it can happen on the other end of other issues also. So that concludes my testimony, so if there's any questions.

**FRIESEN:** Thank you, Mr. Dilsaver. Any questions from the committee? Seeing none,--

**JOHN DILSAVER:** Thank you.

**FRIESEN:** --thank you for your testimony.

**LARRY BAUS:** Good evening, members of the Revenue, Retirement, and Education Committees. My name is Larry Baus, spelled L-a-r-r-y B-a-u-s. I own a grocery store here in Lincoln, A Street Market, we're

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located at 33rd & A Streets, a well-established older neighborhood. A lot of our business is walk-in business from those who live in the neighborhood. The store has been at this location for about 70 years. I've owned it for the past 25. We have a total of three checkout lanes. We are a small, family-owned business that serves our neighborhood. The eight-page handout that is being distributed is actually a Q and A segment from the Streamlined Sales Tax Web site that is available to help retailers understand how to determine what is and what is not taxable. It is complicated and will require administrative personnel to decipher which items are taxable. Retailers will have to do this on an ongoing basis due to new product introduction and reformulations. As an example, I would ask you to take a look at page 2 c), example 1 and example 2. Example 1 is straightforward, example 2 is not. Trail mix has carob chips, a sweetened drop by anyone's standards. Yet even though it's added to the trail mix, trail mix is not considered a candy, because the individual items that make this product are not pieces. As you review the six pages of examples, you will find additional examples that are just as awkward. Definition of carob, just in case you need it, carob chips are made from the pod of the carob tree, a small Mediterranean shrub. The pods are dried, roasted, and ground into carob powder before being made into chips or used in other applications. Carob is less bitter than chocolate and has a natural sweetness. This may be a revenue neutral tax reform package to the state of Nebraska, but it certainly is not revenue neutral to grocery stores. The shift in taxes will cause an increased cost to stores in software upgrades and labor, and these costs will be passed onto our customers along with the tax increase. Our point-of-sale system has been updated and allows us to do what we need to do to sell groceries. However, due to the age of our system there are many things our software can't do without a complete overhaul that would run about \$6,000 per lane. I respectfully request that the property tax solutions we are facing are not solved by adding expense and labor to small independent grocers like mine. Thank you. If you have any questions, I'd be glad to answer them.

**FRIESEN:** Thank you. Any questions from the committee? Senator Briese.

**BRIESE:** Thank you, Vice Chair Friesen. Thank you for your testimony.

**LARRY BAUS:** Sure.

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**BRIESE:** You did indicate that these costs can be passed on to your customers. Is that correct?

**LARRY BAUS:** Well, the only way to do it to stay in business. Otherwise, we close our doors.

**BRIESE:** Thank you.

**FRIESEN:** Thank you, Senator Briese. Any other questions from the committee? So would it make it a lot easier on you and save you labor if we just taxed everything?

**LARRY BAUS:** Well, it would be easier for-- we wouldn't have to have the software update.

**FRIESEN:** Everything would be less.

**LARRY BAUS:** Yeah. Oh, I remember--

**FRIESEN:** And you get a property tax relief on top of it.

**LARRY BAUS:** --years ago, they've taxed food. I don't think that's necessarily fair to everybody, is it? Start taxing food.

**FRIESEN:** Well, you,--

**LARRY BAUS:** It's a necessity.

**FRIESEN:** --you have to keep SNAP separate. But otherwise-- I mean, everyone pays the same.

**LARRY BAUS:** Do you think that raising the sales, raising the sales tax on pop and candy is gonna stop those people from buying them? This could be risk of revenue stream, it's not gonna--

**FRIESEN:** That wouldn't be my goal. I want them to buy more.

**LARRY BAUS:** OK.

**FRIESEN:** Thank you for your testimony. Senator McCollister.

**MCCOLLISTER:** Yeah, thank you, Senator Friesen. You have one location, one store--

**LARRY BAUS:** Yes, um-hum.

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**McCOLLISTER:** --in Lincoln?

**LARRY BAUS:** Yes.

**McCOLLISTER:** I understand. The calculator or the machine that you use to calculate to-- that comes with the software to figure out what stuff is taxable and what is not?

**LARRY BAUS:** We have to be taxed a different rate. The gentleman that's gonna testify behind me could tell you a little more about the technical aspects of the software and how that works. All I know is it's gonna cost me \$6,000 a lane, and \$18,000 to a small grocery store like me is a significant increase in our cost of doing business. Not only that, every item that comes into our store would have to be somebody that just needs somebody to look at that product and identify if it's a taxable food item or not. So we'd have to designate somebody just for that and on almost every single load we get in because suppliers will change the formula of an item when they send it. So you have to-- every time you get a load in you almost got to look at the ingredients of that package to see if that's gonna fall into the guidelines of being taxable or not. And [INAUDIBLE] at least one person to do that. And that's significantly gonna cost us.

**McCOLLISTER:** But you're making that distinction now, are you not?

**LARRY BAUS:** Pardon me.

**McCOLLISTER:** You're making that distinction now when it's taxable or not.

**LARRY BAUS:** We, we would have to because nobody is gonna help us do that.

**McCOLLISTER:** Right.

**LARRY BAUS:** You know, we have to do that on our own. We have to designate somebody to do that. Somebody you trust, that's gonna understand how the system works. And as you can see from the handout, it's a pretty complicated deal. And I'm worried about us making a mistake or somebody making a mistake and either taxing something that's not supposed to be or not taxing something that should be. And the Revenue, if they come in and we get audited, we could get fined for not catching that. It's-- you know, it's just human error and just

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makes our job a lot more, a lot more difficult. You know, I like sell groceries. I've been doing it for 53 years.

**McCOLLISTER:** Got it.

**LARRY BAUS:** But this makes it much harder for us to do business.

**McCOLLISTER:** Thank you for coming in tonight.

**LARRY BAUS:** You bet.

**FRIESEN:** Thank you, Senator McCollister. Any other questions from the committee? Seeing none, thank you for your testimony.

**TERRY REHMEIER:** Well, good evening. Larry stole my thunder. I'm the exciting cash register salesman. My name is Terry Rehmeier, T-e-r-r-y R-e-h-m-e-i-e-r. I'm the general manager of Retail Data Systems of Omaha. Our company sells and installs point-of-sale systems for retail locations. If candy, soft drinks, and water become taxable in Nebraska, these food, food items will still be eligible for SNAP, but retailers will not be allowed to charge a sales tax if it's paid by SNAP. The USA-- USDA determines what foods can be purchased with SNAP benefits and the state of Nebraska cannot override the USDA. While most point-of-sale systems have the capability to be programmed to handle these transactions even those that are up to 20 years old many will not. Those systems can be and will be set up so that the new candy, soft drink, water category will be its own department or category and all the items in this new department will have two flags, taxable and SNAP. Unless the customers, as we all know, they'll figure this out. If they place the entire order on the bill-- in other words, it doesn't separate the EBT items from the non-EBT and pays with two forms of payments, the system will be programmed to sort the order to take the nontaxable items first followed by taxable items. Excuse me. If the customer has enough money in their SNAP account, no tax will be charged. If the customer doesn't have enough in their SNAP account to pay for the entire order, the taxable items will roll to the bottom of the bill and the nontaxable items will be paid by SNAP first, while the taxable items will roll to the second type of payment and the customer will pay a tax on those items. We all know how savvy customers are. So I would foresee customers splitting their order to avoid paying sales tax. So candy, soft drinks, and water will be placed on the belt first and paid with SNAP. Nontaxable items will then be placed second, and these items will be paid out of SNAP

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customer's pocket. There would be two transactions rather than one. So this will increase the store's transaction fees. These stores would have-- the stores that have POS, that we call bangers-- that's where you \$1.89 and hit a key, \$1.89 and hit a key, do not have the ability to program these items. So you're really-- what you're doing is you're forcing the clerk to read every package and determine it, and it's, it's just gonna slow down the entire process. I would estimate that there's probably 25 percent of the stores that have a system that will not be able to program-- that the food stamp-- or the tax exempt that you want it to do. And I've, I've been doing this for 35 years, so I've called on about every grocery store in the state, or I hope I have anyway. Large, multiple location stores that are usually found in the larger communities have systems that can be reprogrammed. The small stores in rural Nebraska and the convenience stores do not have the same type of system, because they don't need all the bells and whistles. It would be a problem for all stores in determining what should be and what should not be taxed, because historically the Department of Revenue provides the guidelines on that, that we're not seeing where anybody is providing the guidelines that's gonna send out a list that says this candy bar is, this one isn't, this one is, like Larry was saying there's just too many options out there. The handouts passed out are examples of the current guidelines the Revenue provides to retailers. It will be very difficult for small retailers to comply with the law if tax exemptions on food and water outlined in the bill are removed. Thank you. And if you have any questions, I'd be happy to answer them.

**FRIESEN:** Thank you. And any questions from the committee? Senator Briese.

**BRIESE:** Thank you, Vice Chair Friesen, and thank you for your testimony. Are you suggesting the Department of Revenue put together a master list for these folks? [INAUDIBLE] do a lot of the--

**TERRY REHMEIER:** I, I don't think they'll be able to on the candy,--

**BRIESE:** OK.

**TERRY REHMEIER:** --because like Larry said, that-- those ingredients change on a regular basis.

**BRIESE:** And you said 25 percent of stores have a system that can't or that's not capable of this?

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**TERRY REHMEIER:** Right. If, if you would think about it as a nonscanning store, they're not going to have the capability to do it.

**BRIESE:** So you're saying 25 percent of stores don't have the capability at all [INAUDIBLE]?

**TERRY REHMEIER:** Correct, Correct.

**BRIESE:** Do you have customers in Iowa?

**TERRY REHMEIER:** Yes.

**BRIESE:** OK, and Iowa does tax candy, don't they?

**TERRY REHMEIER:** Um-hum.

**BRIESE:** They don't tax groceries, right?

**TERRY REHMEIER:** Correct.

**BRIESE:** How do they do it?

**TERRY REHMEIER:** Well, it would be the same scenario. That if they're scanning, you can program it in the system. But if they're just using a banger, then you're leaving it up to the cashier.

**BRIESE:** And some stores do that over there?

**TERRY REHMEIER:** Um-hum.

**BRIESE:** Leave it up to the cashier? They get along and nobody gets in too much trouble?

**TERRY REHMEIER:** Well,--

**BRIESE:** It all works?

**TERRY REHMEIER:** --I've never been in a store when the Department of Revenue walks in, so.

**BRIESE:** OK, very good. Yeah, thank you.

**TERRY REHMEIER:** Yeah.

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**FRIESEN:** Thank you, Senator Briese. Any other questions from the committee? Seeing none,--

**TERRY REHMEIER:** Thank you.

**FRIESEN:** --thank you for your testimony. How many more people are gonna testify?

**LYNN REX:** Senator Friesen, members of the committee, my name is Lynn Rex, L-y-n-n R-e-x, representing the League of Nebraska Municipalities. First, I'd like to thank you for your patience this evening and staying. Secondly, the hard work of this committee and all of you have been doing on this property tax issue and tax reform itself. With that, I'd like to share with you that yesterday the League Executive Board met by telephone conference call and voted unanimously to basically oppose LB289 specifically because of the reduced valuation from 100 percent to 90 percent on residential commercial property because the implications of that for municipalities across the state. There are 529 cities and villages in the state of Nebraska, 215 of them were already at their maximum levy limit, the 45 cents per \$100 of valuation. Another 115 of them are between 40 and 45 cents. That's based on 2018 valuations and also their self-reporting to us which we put in our directory and then try to validate with the Department of Revenue. So what we're trying to convey to you is that we have municipalities in this state that would be severely impacted by this. And in large part, just to give you the contrast, Larry Dix, the executive director of NACO, indicated there are 5 of the 93 counties that are up against their maximum levy limit. Why would we have 215? And that's because in 1996, the Legislature passed LB1114 which reduced the levy limit for municipalities from cities and villages, second-class cities and villages from \$1.05 per \$100 of valuation to 45 cents in two years. It passed in 1996. They were required to do it by 1998. Every second-class city and village in the state of Nebraska was already over the \$1.05 limit at that time. First-class cities at that time, it was 87.5 cents per \$100 valuation. Most of them weren't even close to that. But, for example, to give you an idea of the 215 municipalities-- you heard from Omaha today, they're at the maximum levy limit. Hastings-- let's see, oh my gosh, Bellevue is very close to that, and several other cities as well. And of course the smaller ones, almost all of them. The second-class cities and villages, I would submit to you have never really recovered from that dramatic reduction in the same way that the, that the U.S. government said to you as a state, you have two years to reduce your

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total amount of revenue. Good luck with that. Reduce your sales tax rate, reduce your income tax rate by half, and you have two years to do it. That's what happened to the second-class cities and villages. So with that, I'd be happy to respond to any questions that you might have. We would really appreciate the consideration that Senator Linehan suggested a little bit ago-- well, actually, hours ago as it turns out, which is to have some level of accommodation. I defer your committee counsel in terms of how to address the constitutionality of Article VIII, Section 1, in terms of making sure that taxation of property is proportionate and uniform. And whether or not you can do that within the TEEOSA formula, I don't know. But I would-- we'd certainly appreciate anything that you could do to make sure that these cities are able to continue on. I'm, I'm happy to respond to any questions you might have.

**FRIESEN:** Thank you, Ms. Rex. Senator Groene.

**GROENE:** And I'll repeat what I said earlier, the people I talked to, it isn't just the schools that worry about high taxes, it's your municipalities. People around North Platte, my friends, they move out to the suburbs because it's less expensive to have a well and their own septic tank to live in your municipality. Do you think maybe if we just decided to give all your government entities all of our money and you'll mail a little bit back to us and we would live in this utopia. Would that work?

**LYNN REX:** I think, Senator, that citizens go to the polls, they vote for local elected officials. If they don't support what those local elected officials are doing on city councils and village boards, they can recall them. They can decide that they're gonna vote them out of office. And if they really don't care what they're doing, they could submit their name and run for city council and village board, and I think that's a cure for a lot of things.

**GROENE:** Yeah, but 50 percent of them are EITCs and they don't care because they don't have to pay any taxes.

**LYNN REX:** I'm sorry.

**GROENE:** Just forget it.

**FRIESEN:** Thank you, Senator Groene. Any other questions from the committee?

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**LYNN REX:** Thank you so much for your patience. Appreciate you staying here tonight and all the hard work you're doing on this.

**KEN SCHILZ:** Good evening, Vice Chair Friesen and members of the Revenue, Education, and Nebraska Retirement Systems Committees. Thank you for the opportunity to testify here this evening. My name is Ken Schilz, K-e-n S-c-h-i-l-z, and I'm a registered lobbyist for the Nebraska Licensed Beverage Association or NLBA. Today we are testifying in opposition to AM1381 to LB289. NLBA is a nonprofit trade association representing liquor retailers across the state and our members are small businesses who provide jobs in hundreds of communities throughout Nebraska contribute to the tax rolls and are good stewards and community leaders. The NLBA is opposed to any increases in the sales tax rates. NLBA is also opposed to removal of sales tax exemptions for bottled water, soft drinks, and candy. All of these measures are a tax increase on our customers. Although we support the Legislature's efforts to provide property tax relief, at this time we must oppose AM1381. And once again, thank you for the opportunity to testify, and I would be happy to try to answer any questions you might have.

**FRIESEN:** Thank you, Mr. Schilz. Any questions from the committee? Seeing none,--

**KEN SCHILZ:** Thank you.

**FRIESEN:** --thank you for your testimony. Welcome.

**LIZZ WHITACRE:** Hi. Hello, my name is Lizz Whitacre, spelled L-i-z-z W-h-i-t-a-c-r-e. I am, I am an opposition to one specific section of LB289, AM1381 imposing sales tax on professional veterinarian services. Animal welfare is people welfare. Did you know that those of us who work in animal welfare have a 5.3 times higher suicide rate than the general public? We're constantly surrounded by death and helplessness because of pet owners who are desperate to get basic veterinary care and are unable to afford standard services. One in three people will go through economic hardship in their lifetime meaning they're unable to spend \$300 at one time. Unsurprisingly, one of the top three reasons people will relinquish pets is due to financial reasons. These relinquished animals then become the financial burden-- a burden of our cities and state. Local governments across the U.S. are already spending upwards of \$2 billion in taxes just euthanizing pets. An imposition of sales taxes on professional

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vet services feeds this vicious cycle. In the state of Nebraska there are only four low-cost vet clinics for a low-income pet owner who is most likely living in a resource desert. How are they expected to find transportation for themselves and an animal for standard procedures like vaccinations and spaying or neutering, let alone in times of an emergency? Furthermore, when pets cannot get vaccinated or receive proper medications this creates a public health threat which could include exposure to both humans and other animals of rabies, parvo virus, Bordetella, and more. Aside from the diseases the public may become exposed to, fewer pets will get spayed and neutered, neutered only compounding the cost of homeless pets on the state and burden on our shelters and rescues. Nebraska is currently still euthanizing 37 percent of all animals that enter our shelters. This number is expected to rise if the amendment passes. At this moment we should look at data-backed practices such as Austin, Texas, who after achieving a euthanization rate of less than 10 percent, saw a local economic boom of \$157 million and currently has the strongest metropolitan, metropolitan economy in America. A study done by the Watershed Foundation states that the majority of this positive economic impact in Austin resulted from increased employment within animal services as well as the increased use of pet care and pet retail services. An additional benefit appears to be the positive contribution of Austin's progressive animal welfare policies to its brand equity. This impact is important as municipalities compete with each other to attract employee demographics that in turn draw new business and new economic growth to their area. As Nebraska grows and struggles to keep young talent and postgraduates, and as UNL attempts to hit an enrollment of 30,000 students, this bill is in opposition to that growth and retention. Thank you.

**FRIESEN:** Thank you, Ms. Whitacre. Any questions from the committee? Seeing none, thank you for your testimony.

**LIZZ WHITACRE:** Thank you.

**ASHLEY FREVERT:** Good evening. My name is Ashley Frevert, that's A-s-h-l-e-y F-r-e-v-e-r-t, and I'm the executive director of Community Action of Nebraska. We are the statewide association for Nebraska's nine community action agencies. We are part of a national network of nonprofits. There are over 1,000 agencies across the nation. And in Nebraska there are nine, but there are 1,200-plus employees, so we are a pretty large network. Community Action staff see firsthand the needs of Nebraskans as it relates to health, wellness, housing, nutrition,

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and employment. You each have a handout showing that in federal fiscal year 2017 alone, our agency served 85,585 people. Community Action is community-based and community-focused. We evolve and change according to the needs of those we serve across Nebraska. Our initiatives can be traced back to the Economic Opportunity Act of 1964, which authorized the formation of Community Action agencies. We were ignited, the fire was started in our hearts, and we began fighting the war on poverty 55 years ago this August. Our staff, like I said over 1,200, are seeing not only what Nebraskans need to survive, but to thrive. As many have said before, I'm just gonna make it short. Voices for Children, Center for Rural Affairs, OpenSky Policy Institute, Stand for Schools, Nebraska Appleseed, we are on the same page as all of them. So I'm gonna go to the next portion of my testimony and talk about the concerns we have for the reduction of land value and its long-term impact on the financial health of communities across the state. Nebraska's communities need adequate revenue to support education, health care, and a skilled work force, as well as infrastructure. Depending on the location, our agencies may be the largest employer in the surrounding area and their staff has-- have experienced firsthand the growth in the need for services as the population grows. Hampering revenue growth for cities and counties through land valuation and reductions is risking cuts to essential services for growing communities. I want to thank the members of this committee for putting forward a revenue package that aims to address property taxes while also raising the revenue to pay for relief. We support what you're trying to do. However, we respectfully ask that you reconsider this bill and look for other ways to broaden the tax base in the state. Thank you for your time and service to Nebraska. Your dedication is what makes our Unicameral unique and impactful. I am happy to answer any questions you have.

**FRIESEN:** Thank you, Ms. Frevert. Any questions from the committee? Seeing none, thank you for your testimony.

**ASHLEY FREVERT:** OK, thanks.

**BRAD BEAM:** Good evening. My name is Brad Beam, B-r-a-d B-e-a-m. I am actively involved in the companion animal welfare groups, and I wanted to come and, and express my opposition to LB289. I mean, just gonna add a couple of things to what's been said tonight. One, is that LB289, I think, is, is bad fiscal policy. It will increase costs to cities and county governments. Nonprofit animal shelters, such as Humane Societies and rescue groups, perform valuable services for the

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communities. Shelters and rescue groups are on shoestring budgets with limited resources. They are not exempt from paying Nebraska sales tax like other nonprofits. Imposition of a sales tax will increase costs resulting in fewer animals being served by the animal shelters and rescue groups. And that's gonna fall on the city and county governments that they're gonna have to pick up the tab to meet the community needs. In addition to that comment, the impact of LB289 is far reaching as more pets are in Nebraska homes today than ever before. In fact, there are more pets in Nebraska households than there are children. For example, in Lincoln, Nebraska, we have 105,000 pets in the city, 42,000 students at-- in LPS. Nebraskans want property tax relief, but increasing sales tax by over \$200 million on Nebraska families is not the answer. Thank you.

**FRIESEN:** Thank you for your testimony. Any questions from the committee? Seeing none, thank you for your testimony.

**JIM OTTO:** Senators. My name is, my name is Jim Otto, that's J-i-m O-t-t-o. I'm a registered lobbyist and president of the Nebraska Retail Federation, also a registered lobbyist for the Nebraska Restaurant Association, and I'm here to testify in opposition of AM1381 to LB289 on behalf of both associations. I decided, when I messed up on where I should sit in order to get in the right-- I decided, I decided I'd just wait around to be the last ones, because that way it might impress you guys a little more. Anyway, I kind of echo, echo what Mr. Todd said earlier. I'm not here to complain about anything that how you're doing and what you're doing. I just want to bring something to your attention and the fact that in this fiscal note you'll see that one of the well-documented fact, but something that people don't really realize is the fact that retailers collect and re-- well, they actually remit about \$11-- over \$11 million more than they collect on a net basis. And this is due because of the sales tax-- the sales tax portion of the sale is still on the credit card, so just the credit card fees on the sales tax portion of the sale amount to over \$11.8 million a year. And the way we document that is not because-- from the industry, that is actually a fiscal note on LB186, which Senator Karpisek introduced back a few years ago. In fact-- so if you take it forward, \$11.6 million is what it would be this fiscal year. And if you raise it to 6.25 percent, it would make that inequity \$13.8 million that retailers remit-- retailers and restaurants mostly that's who remit up above what they collect on a net basis. So I just wanted-- and as with the growth of a cashless society, more debit cards, more credit cards, that number will grow,

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so the inequity will grow. I also wanted to mention that I have a 2002 Ford Explorer that I'd be glad to pay 25 bucks on. So with that, be glad to answer any questions.

**FRIESEN:** Thank you, Mr. Otto. Any other questions from the committee? Seeing none, thank you for your testimony.

**JOHN HANSEN:** Good evening, members of the Revenue and the Retirement, and this is-- and the committee. For the record, my name is John Hansen, J-o-h-n H-a-n-s-e-n. I'm passing out my testimony, and it's not very often you get to speak to three different committees, and these are three important committees. And so we have an oppor-- we've had opportunity here for the members of the other committees to hear what goes on in Revenue. By my account this evening we've heard testimony, we had 4 in support, we had 12 that were in neutral, and we had 49 that were opposed. And I would say that representing Nebraska Farmers Union, but also wearing another hat, the Nebraskans United Coalition, there's 24 organizations that have been working two-and-a-half years and are as serious as a heart attack about the business of coming up with a viable plan that can get the necessary support of 33 state senators to get something done this year. And we stand at the-- ready to work with the committee in any way that we can, but we have to look at the testimony that came in. There are folks who are opposed because they're opposed because the status quo is OK with them. We have other folks who think there's better ways of doing it. And I-- they're-- we need to be able to saddle up the folks who are really wanting property tax relief and want to adequately fund K-12 education and find ways to make that dog hunt. To speak to a couple of things have been brought up. One, is that we've had a good discussion about poverty and whether or not-- and, and people of lower income means. I've spent 30 years working for folks who do a really good job of hiding poverty. And those are folks in rural communities. And so here we are now in the business of working with folks with flood damage. We're trying to get help out to folks who need it, the Cattlemen, the Farm Bureau, Farmers Union are all doing that. And one of the number one problems we face is that when you talk to folks who just took a terrible beating, they won't ask for help because, well, there's other folks that had it worse and they wouldn't want to use anything that might take it away from somebody else's worse shape than them. We desperately need property tax relief. We are heading into year six of at or below cost production commodity prices. There were about 10 percent of the AG loans in Nebraska we estimate did not get renewed this year. We are in trouble. And so all of that tells us that

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we have to continue to work together to be serious to come up with a package this year. Thank you very much. And thanks for all your hard work and effort and patience.

**FRIESEN:** Thank you, Mr. Hansen. Any questions from the committee?  
Senator Groene.

**GROENE:** Are you implying your group of 24 with all the tax increases you had in your plan that you would have less than 49 people against you if that hearing was held tonight?

**JOHN HANSEN:** Well, I, I think that the plan that we had and portions of the plan, so as we've, we've recalculated where we're at. We've taken the testimony that we've heard, and we think that it's possible to come up with a simpler plan, frankly, that is more understandable, that more state senators would likely support.

**GROENE:** I've seen your plan. It doesn't work. It's too simple.

**JOHN HANSEN:** OK.

**GROENE:** Thank you.

**JOHN HANSEN:** Thank you.

**FRIESEN:** Thank you, Senator Groene. Any other questions from the committee? Seeing none,--

**JOHN HANSEN:** Well, thank you very much. I just want you to know that the latest hearing that I've had on this topic, I testified at 11:25, and I was the second to the last.

**FRIESEN:** --are there any others who wish to testify in a neutral capacity, opposition, proponent? With that, we have letters for the record: proponents have none; opponents, there's too numerous to list; and a few in the neutral capacity. That will close the hearing on AM1381. And we'll close the hearing for the day.