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Revenue Committee  
March 18, 2015

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[LB587 LB613]

The Committee on Revenue met at 1:30 p.m. on Wednesday, March 18, 2015, in Room 1524 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LB587 and LB613. Senators present: Mike Gloor, Chairperson; Paul Schumacher, Vice Chairperson; Lydia Brasch; Al Davis; Burke Harr; Jim Scheer; Jim Smith; and Kate Sullivan. Senators absent: None.

SENATOR GLOOR: Good afternoon and welcome to the last but best hearing of the Revenue Committee this year. I'm Senator Mike Gloor. I'm Chairman of the committee from District 35. I'd like to welcome you. The committee will take the bills in the order posted in the back of the room. We have a few general rules that I'll cover as quickly as I can. For the benefit of those who haven't been to one of these hearings before, please turn off your cell phones. We'd ask those of you who are going to testify to move forward. Our order of presentation will be the introducer, then we'll go to opponents, proponents...excuse me, proponents, then opponents, those in a neutral capacity, and then the presenting senator will have a chance to close. If you are testifying here today, please fill out one of the green forms in the back of the room and give it to Krissa, the clerk who is seated over there to my left at the end. When you do sit down to testify, please give us your name and spell it out so that we have it for the record. If you have handouts, we need 11 copies of those handouts. If you don't have 11, the pages will be glad to help you get the necessary 11 that you need. If testifying, we would ask that you, please, try and speak into the microphone so that we can get every word. That's also a recommendation that I ask the committee members themselves to adhere to. If you would choose not to testify but would like your stand on a bill to be known, there are white sheets in the back that you can fill out. We have a five-minute rule with a light tree that, much like drag racing, goes green for the first four minutes, yellow when you've got a minute left, and then turns red when it's time to wrap things up. I'm going to ask committee members to introduce themselves starting with Senator Brasch on my far right.

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

SENATOR HARR: Burke Harr, Legislative District 8 in midtown Omaha.

SENATOR DAVIS: Al Davis, District 43, 13 counties in north-central and western Nebraska.

SENATOR SCHUMACHER: Paul Schumacher, District 22. That's Platte and part of Colfax and Stanton counties.

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

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

SENATOR GLOOR: Senator Scheer will be joining us soon. He's presenting a bill in another committee and expect him to be here after a while. Committee staff are Mary Jane Egr Edson who is counsel, Krissa Delka who is the clerk, Kay Bergquist who's our research analyst, and our pages today are Colin from Wayne and Donnie from Lincoln who are seated over there on my far left. With that, welcome, Senator McCollister. We'll start with you. Whenever you're ready.

SENATOR MCCOLLISTER: (Exhibits 1, 2, 3) Okay. Thank you very much. Mr. Chairman. Chairman Gloor, members of the Revenue Committee, my name is John, J-o-h-n, McCollister, M-c-C-o-l-l-i-s-t-e-r, and I represent the 20th District in Omaha. In my campaign for the Legislature, Nebraska's sky-high automobile tax was a resounding source of concern and frustration for voters. Accordingly, I'm here to introduce LB587. Studies show that the "Cornhusker" state ranks among the top ten states for motor vehicle fees. The 2011 "State by State Comparison of Annual Motor Vehicle Fees and Taxes" (sic) by the Idaho Transportation Department is of particular importance. A copy of this often-cited study is in your handout packet along with yesterday's reference to the study in the state chamber's "News Update." Handout number three simply illustrates a comparison of Nebraska's license plate rates with those of our neighboring states. Nebraska's motor vehicle tax generates about \$220 million per year. It is distributed through an intricate formula that sends about 22 percent to counties, 60 percent to schools, and 18 percent to cities and towns. There are a couple of exceptions to the distribution formula. If the taxing district is not a city or a village then 40 percent goes to the county. In Douglas County, 18 percent goes to the county and 22 percent goes to the city. The motor vehicle tax is calculated in two steps. First, the base tax is determined by using the base tax rate on pages three and four of the green copy. The base tax rate is determined by the value or the list price of the vehicle when it is new. The bill would not change the base tax rate. The base tax rate is then multiplied by a fraction that is located in the table on page 2 of the green copies on lines 9 through 12. The table currently in use applies to all motor vehicles. LB587 would change this and make the current multiplier apply to all vehicles except passenger cars. The first change noted in the second table reduces the multiplier effective 2016. The second reduction in table three of the bill would begin in 2017. It will eliminate the last two years...the tax two years earlier when the vehicle is 12 years old. These changes appear on page 3 of the green copy beginning at line 21 where the fraction drops to zero for years 12 and 13. Currently, Nebraska makes automobiles taxable two years longer than all of its bordering states. Column four of handout four illustrates the effect of eliminating year 12 and 13 from taxation. The simple illustration in handout number five may help clarify the tax reduction proposed in LB587. It uses a new vehicle with a list price of \$30,000. The base tax rate on page 4 is \$500...on page 4,

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line 10 is \$500. Thus, the owner of this vehicle would realize an immediate tax reduction that would continue through the vehicle's 11th year. With this, I'll give you my handouts. I'll continue as they pass out the sheets. I am offering AM457 to LB587. The amendment would clarify the effective dates of the tax structure changes proposed in this bill for county treasurers and Department of Motor Vehicles staff who carry out the statutory motor vehicle tax schedule. I'm also offering a letter in support from Dr...from Mr. Robert Foster of Omaha. I realize the odds that LB587 will pass this year are slim. The bill is being heard late in the session and the provisions in the bill could have an unanticipated impact on school and county finances that justifies further consideration. Nonetheless, LB587 is a serious bill that deals with a serious problem which warrants our attention during the biennium. Thank you and I'd be happy to answer any questions. [LB587]

SENATOR GLOOR: Thank you, Senator McCollister. Could I ask you to back up in your testimony? It took me a while to find pages 4 and so on and so forth. Would you mind going back to the...some of the comparative information that was included under certain pages? [LB587]

SENATOR McCOLLISTER: Yeah, let me find it here. [LB587]

SENATOR GLOOR: You had... [LB587]

SENATOR McCOLLISTER: Let me just use the schedules. I've got those as well. [LB587]

SENATOR GLOOR: I'm looking specifically at this handout, LB587... [LB587]

SENATOR McCOLLISTER: Um-hum, right. [LB587]

SENATOR GLOOR: ...an act related to motor vehicle registration. [LB587]

SENATOR McCOLLISTER: I'm with you. And you wanted to go to number four, is that correct? [LB587]

SENATOR HARR: Towards the end, yep, last two pages, last two pages. [LB587]

SENATOR McCOLLISTER: Okay. Two, three, okay, number three, your...that is understandable? [LB587]

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SENATOR GLOOR: I think so. [LB587]

SENATOR McCOLLISTER: Okay. I'm on handout number four. Go ahead, sir. [LB587]

SENATOR GLOOR: Go ahead. Just... [LB587]

SENATOR McCOLLISTER: Well... [LB587]

SENATOR GLOOR: ...what was I looking at under... [LB587]

SENATOR McCOLLISTER: Well, you can see the first column... [LB587]

SENATOR GLOOR: This would be the correct page, is that right? [LB587]

SENATOR McCOLLISTER: Yes, sir. [LB587]

SENATOR GLOOR: Okay. [LB587]

SENATOR McCOLLISTER: The first column is simply the year, the age of the vehicle. And the second column is the fraction, the multiplier that we use to calculate the tax. And that second column is the current multiplier used by... [LB587]

SENATOR GLOOR: Okay. [LB587]

SENATOR McCOLLISTER: ...by the tax commissioner. And then the third column is the change that I'm recommending in the bill. It changes the multiplier. And finally on the fourth column, we dropped off two years. So you see that the multiplier remains the same. In columns three and four, we simply drop off the last two years. [LB587]

SENATOR GLOOR: So the only difference on column...the last column on the right is you've just dropped off the last two years? [LB587]

SENATOR McCOLLISTER: Yes, sir. Yep. That's correct. [LB587]

SENATOR GLOOR: Okay. And page number 5? [LB587]

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SENATOR McCOLLISTER: We simply, instead of giving you the fractions, we took... [LB587]

SENATOR GLOOR: Gave you the numbers? [LB587]

SENATOR McCOLLISTER: ...an example of an automobile with a value of \$30,000 and did the application with the new and the old amounts. [LB587]

SENATOR GLOOR: Gotcha. Other questions? Senator Davis. [LB587]

SENATOR DAVIS: Thank you, Senator Gloor. Senator McCollister, could you give me the figures again on the revenue lost to the counties and the...I mean, the entities? It was \$200-some million but I don't know what it was exactly. [LB587]

SENATOR McCOLLISTER: Well, the gross tax to all counties, cities, and schools, around \$220 million. [LB587]

SENATOR DAVIS: This isn't...the reduction is \$220 million? [LB587]

SENATOR McCOLLISTER: And the reduction is approximately \$20 million... [LB587]

SENATOR DAVIS: Okay. [LB587]

SENATOR McCOLLISTER: ...spread among those various sources, those units of government. So it's...I understand it's a considerable amount of money and...but it's...there are a lot of moving parts in the state budget as we well know and...but it's a good time to put this on the table and take a look at the fact, Nebraska is an outlier when it comes to automobile licenses. [LB587]

SENATOR DAVIS: So at least Lincoln has a wheel tax. Does Omaha have a wheel tax also? [LB587]

SENATOR McCOLLISTER: Indeed so. And...but that's... [LB587]

SENATOR DAVIS: That's not figured into this? [LB587]

SENATOR McCOLLISTER: That's not figured into it. [LB587]

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SENATOR DAVIS: How is that figured and how much is that? [LB587]

SENATOR McCOLLISTER: Well, I know it's figured in because I pay it. But, you know, it's not part of the ad valorem tax that's applied. So the ad valorem tax is the property tax that counties apply on those automobiles. And that's the source for that \$220 million throughout the state. [LB587]

SENATOR DAVIS: Is there...does the Department of Motor Vehicles have a chart that would show or could Revenue produce a chart that would show us where those hits would hit hard? [LB587]

SENATOR McCOLLISTER: Yeah, and I can...yes, sir, and I can get you a copy of the reductions or how it would affect each county. [LB587]

SENATOR DAVIS: I think that would be useful in light of the fact that we talk a lot about state aid to education and a reduction...significant reduction in some areas is going to cause problems for them. [LB587]

SENATOR McCOLLISTER: I would be happy to do that. Thank you, Senator. [LB587]

SENATOR DAVIS: Thank you. Thank you. [LB587]

SENATOR GLOOR: Other questions? Seeing none, thank you, Senator McCollister. [LB587]

SENATOR McCOLLISTER: Thank you. Thank you, Senator. [LB587]

SENATOR GLOOR: We'll now move to proponents. Good afternoon. [LB587]

JESSICA SMITH: (Exhibit 4) Good afternoon, Chairman Gloor and members of the Revenue Committee. My name is Jessica Smith, J-e-s-s-i-c-a S-m-i-t-h. I'm the director of research for the Platte Institute testifying today in support of LB587. Nebraska is widely considered to be an inexpensive place to live with the cost of living far below the national average. Unfortunately, the same cannot be said about the cost to register a car. According to a 2011 Idaho Department of Transportation study, Nebraska has the seventh highest registration fees in the nation, \$306 compared to the national average of \$184. Compared to our neighbors, only Missouri drivers pay more in registration fees and taxes, \$426. LB587 would address this discrepancy and provide much-needed tax relief for Nebraska drivers. Specifically, the bill would reduce the tax on

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passenger vehicles by streamlining the mathematical process used to calculate the tax. High registration fees and taxes provide an incentive for people to skirt the law and register their cars in other states. In 2008, the Nebraska State Patrol estimated that up to 14,000 individuals registered their cars in South Dakota and Iowa, costing the states estimated \$11 million annually. The extent of this evasion indicates that these taxes are out of balance. Lowering vehicle registration taxes would benefit all Nebraskans. Individuals and businesses could keep more of their money which could then create a multiplier effect as that money is saved, invested, or spent elsewhere. Further, LB587 would help mitigate the revenue lost when drivers choose to improperly register their vehicles out of state. The Platte Institute strongly supports all tax relief efforts including LB587. Nebraska taxpayers, including those on the road, urge you to advance this bill. Thank you for this opportunity to testify and I'd be happy to answer any questions. [LB587]

SENATOR GLOOR: Thank you, Ms. Smith. Are there any questions? Senator Schumacher. [LB587]

SENATOR SCHUMACHER: Thank you, Senator Gloor. Thank you, Ms. Smith, for your testimony today. Do you know the source of the study or how it came to be that the patrol estimated 14,000 vehicles registered in Iowa? [LB587]

JESSICA SMITH: You know, I believe I have that. If you'll just bear with me for a moment, I can find that for you. I believe I've got it from a news article. And it was 2008 and that was the most recent that I could find, couldn't find anything for the past couple years. One moment, please, Senator. All right, it's footnote 15. It was from a Lincoln Journal Star article by Clarence Mabin from April 15, 2008, and I can get you the link to that article. [LB587]

SENATOR SCHUMACHER: Is that the number of people they picked up with Iowa plates who were Nebraska residents or... [LB587]

JESSICA SMITH: Nope, I don't believe it was the number that they picked up. I believe it was just an estimate. And I apologize, I'm not sure how they came up with that number but I'd be happy to find out. [LB587]

SENATOR SCHUMACHER: Because they...I mean, if you don't have your car properly registered in the state, they can ticket you. [LB587]

JESSICA SMITH: They can ticket you. Absolutely. Absolutely. [LB587]

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SENATOR SCHUMACHER: Right. Right. The second follow-up question: It looks like the price tag on this is somewhere between \$10 million and \$20 million. Where would we make up the revenue from? [LB587]

JESSICA SMITH: Sure. Sure. You know, that's an excellent question. And as Senator McCollister had kind of discussed earlier, we've got to make this, probably, a multiyear conversation about how to do that. That is going to be one of the challenges. [LB587]

SENATOR SCHUMACHER: Thank you. [LB587]

SENATOR GLOOR: Senator Sullivan. [LB587]

SENATOR SULLIVAN: Thank you, Senator Gloor. And thank you, Ms. Smith. To that end, though, you indicated in your opening testimony that we're already considered to have a low cost of living. I guess my question is, how much lower do you want us to go and sacrifice certain services that are currently being provided by those dollars that would be lost at the state and local levels? [LB587]

JESSICA SMITH: Sure. Well, just because we are one of the lowest cost, inexpensive places to live, with the exception of motor vehicle fees, our state spending is still nearing towards, I believe, about 67 percent of what it was in the year 2000. So we still need to tighten our belts. We still have some places to reduce. And one of the things that we always talk about is how to attract people to Nebraska, how to keep those that are here here and not provide...I guess, incentivize them to leave. So I think that this is just yet another thing. Just because we're an inexpensive state to live in doesn't mean that we should have high motor vehicle registration fees for cars. [LB587]

SENATOR SULLIVAN: Thank you. [LB587]

SENATOR GLOOR: Other questions. Seeing none, thanks for your testimony. [LB587]

JESSICA SMITH: Yep, thank you. [LB587]

SENATOR GLOOR: We'll continue with proponents. [LB587]

LOY TODD: (Exhibits 5, 6) Senator Gloor, members of the committee, my name is Loy Todd. It's L-o-y T-o-d-d. I'm the president of the Nebraska New Car and Truck Dealers Association. It's



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unusual for us to come to the Legislature regarding car taxes in any way. We normally stay out of those things, you know. We've...we recognize that, you know, we're a state of, you know, 1.8 million people with a lot of roads and so it's not something that we traditionally do, come in and ask for reductions in taxes. But we do welcome the opportunity to address this issue. First thing I want the committee to understand is, the state of Nebraska is in the car business with us. I have approximately 200 dealers in the state, and when one of my dealers sells a car, the state of Nebraska picks up somewhere between 11 and 13 percent of the value of that car and sale price of that car in revenues and distribute it in various ways among taxing entities. My dealer hopes to make about 3 to 4 percent. And so it's a pretty good part of the business to be in. And the revenues are huge. What we really appreciate is those revenues are used mostly for roads and schools. And we don't like to get in discussions on schools versus roads. It's not a fight that we enjoy and it's also not a fight that we think we can win so we don't do much of that. And most of our involvement with car taxes is, every once in a while, someone comes up with an idea, something unfunded. You know, if somebody's ballet troupe doesn't get enough support or their opera doesn't get enough support so they think, well, wait a minute, there's 2 million cars in the state. If we just add \$1 to every car registration to go to the ballet...which is part of why we got to where we are now. And so we come in and resist those kinds of attempts. But...and these comparisons and these ratings are very difficult. In 1992, I tried to do that myself, did a national survey among my counterparts, picked three cars, new and used...a newer used one and an older used one, compared, and we're about seventh depending on your methodology. But it's very difficult to do because, how do you compare with all the various taxing entities? You've got state sales tax. You've got state registration fees. Some states use weight. Others don't. We have wheel taxes. We have just a huge variety, rural versus metro, and the other thing I found is, in the newer cars, we were higher than seventh. We would rank sometimes as high as third or fourth, depending on the vehicle, depending on where it goes. You ask about wheel tax? Lincoln has raised their wheel tax 14 times. There's no limit to what you can do with the wheel tax other than you have to spend it on roads. And so how do you throw a wheel tax into the mix and how do you compare it with other states? So it...you know, these comparisons only show us one thing and that's that we're high. We're high in comparison. And you look at the spreads and there's sort of a break that those of us that are high, there isn't a huge difference, you know, maybe \$50, \$60, \$70 between, you know, sixth and ninth and those kinds of numbers so...but there is no question. Nebraska has the second oldest fleet in the country. Wyoming is the only state that has an older fleet. And one of the things that I think this committee would find interesting is that these schedules drop off at year 14 in Nebraska. There are 800...almost 805,000 vehicles that pay nothing on motor vehicle tax. And under the methodology of this bill, after two years we will add another approximately 100,000 vehicles to that mix by changing that rating. It's always been the position of our association that no one should pay nothing. It seems that, you know, the roads are there for everyone that drives on them whether your vehicle is 13 years old or not. And so we would think that if there's a look at the entire tax structure on motor vehicles, we ought to look at it overall. Every state seems to like the way they do it. And if you saw some of the bizarre ways

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that they tax vehicles, you'd be surprised anybody ever went that direction. But they do. And, Senator, I have the answer to the question that was...regarding 14,000 vehicles in other states. If my time runs out, somebody can ask me about it. But I thought I'd answer any questions. [LB587]

SENATOR GLOOR: Thank you, Senator...or Mr. Todd. You want to answer that question about 14,000? [LB587]

LOY TODD: What happened is, there's always been a concern of border bleed. I mean, South Dakota is so inexpensive in...compare with Nebraska and Iowa is a lot cheaper. You see a lot of games being played. In fact, there were, actually county employees registering their cars in Iowa that got caught in this...in some of these operations. What they did was, Revenue took a look at tax returns and registrations because Iowa, for one state, used Social Security numbers in their vehicle registration process. And so they crossed..the two states cross-referenced tax returns, resident tax returns in Nebraska with Social Security numbers on Iowa registered vehicles and that's where they came up with about 15,000 of them. And they got postcards and got chased around a little bit, so to the extent we can gain ground that way...and there's been a bill in the Legislature this year--I think it's actually a Speaker priority bill--that changes our methodology of gaining information that will help compliance in that regard. But we desperately need a new computer in the state. And until that happens, that new information will be wonderful to get but nothing to do with it, so. [LB587]

SENATOR GLOOR: Other questions? Senator Davis. [LB587]

SENATOR DAVIS: Thank you, Senator Gloor. Thank you, Mr. Todd, for coming. I'm thinking maybe 15 years ago, this was overhauled. Is that right? Would it be that long ago? [LB587]

LOY TODD: We had a complete revamp of the system about 15 years ago. And what happened then...and I used to come to this committee year after year and explain to the committee that our method at that time of taxing motor vehicles was unconstitutional because it was supposed to be based on value. It's a property tax. And instead of it being on the value of your vehicle, it was on an average value. It would be like coming to your neighborhood and saying, well, the average value of the homes in your neighborhood is \$300,000 so everyone in the neighborhood is going to pay taxes based on \$300,000. You just can't have it. And so eventually the Legislature realized that. And in order to avoid possible litigation and those problems, we went to this schedule. And in order for it to still be a property type tax and still deductible, it has to be depreciating. It has to be based upon something regarding value. And so what we went to was using the MSRP because every vehicle, every new vehicle in the country, is required to have an MSRP that's set by the manufacturer. So regardless of sale price, there is the MSRP as the initial schedule. And then

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each year, under our current methodology, it's depreciated out, goes from the 95 to 94 and then down to our 0 at age 14 under the current law. [LB587]

SENATOR DAVIS: So as I remember, at that point they added some years to the bottom of the scale. [LB587]

LOY TODD: Your memory is better than mine if you remember. I don't know if it ever ran out under the old system. I just know what we have now. [LB587]

SENATOR DAVIS: So then let's talk about the Iowa situation a little bit. How do you get a license in...how do you register your car in Iowa? [LB587]

LOY TODD: Well, their registration process is very similar to ours. They have a state sales tax of 5 percent on motor vehicles. Their general sales tax in the state is 6 percent. And that's something you see throughout the country in a lot of places. Because motor vehicles are such high price, they have a differentiated sales tax or excise tax in that regard. And then they go into a methodology that's a combination of weight and value. And then...and part of that is a percentage of the list price. In years one through seven, it's 1 percent of list, and then eight and nine, 0.75, similar to ours. [LB587]

SENATOR DAVIS: But I guess what I'm really asking is if there's no...you don't bring a letter in that shows your address or anything? You just walk in and say, I live at 1212 Berry Street? [LB587]

LOY TODD: Yes, I think...and counsel could...would probably know most of these surrounding states more than I would. But I think it's pretty uniform that motor vehicles are taxed based upon your residence and where they're garaged more than six months of the time as opposed to point of purchase or something like that. Otherwise, you get all these games played with, you know, you can go get a better deal in one city than another. So I think... [LB587]

SENATOR DAVIS: So I'm...the reason I'm asking that is I'm wondering if we're losing sales tax as well on these 11,000 vehicles. [LB587]

LOY TODD: Oh, sure, and it's more so South Dakota. You know, the population in Iowa is, you know, with Omaha and that metro area being large population, you get a lot of it. If somebody can get an address, enforcement is tough because you have to catch someone pretty much driving around. It's a secondary discovery if you do discover it. South Dakota, they do everything but advertise to come up and register your car in South Dakota. It's a pretty good deal. So

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there's...you know, it's...the competition among states, there is certainly incentive. The dollars are dramatic. [LB587]

SENATOR DAVIS: Thank you. [LB587]

SENATOR GLOOR: Seeing no further questions, thank you, Mr. Todd. [LB587]

LOY TODD: Thank you. [LB587]

SENATOR GLOOR: (Exhibit 7) Other proponents? We'll move to opponents. We have a letter from Lynn Rex, League of Municipalities, that will be in front of you. That is a letter of opposition. Good afternoon. [LB587]

BETH BAZYN FERRELL: Good afternoon. Chairman Gloor, members of the committee, for the record, my name is Beth Bazyn, B-a-z-y-n, Ferrell, F-e-r-r-e-l-l. I'm with the Nebraska Association of County Officials. I'm appearing in opposition to LB587. We've been here all session talking to you about unmet needs and not eliminating revenue sources. LB587 as written would eliminate a revenue source to counties, cities, and schools. According to the fiscal note, that would be about \$20 million for the three entities and over \$4 million for counties. We believe that that would certainly be a loss that we would feel and it would fall into that unmet needs category unless there's some sort of replacement revenue that would come along with it. We would be happy to work with Senator McCollister and the committee to...if there's a way to come up with some replacement revenue for that. But otherwise, we are in opposition to the bill. I'd be happy to take questions. [LB587]

SENATOR GLOOR: Okay. Thank you, Lynn (sic). Are there questions? I see none at this time. Thank you. Other opponents? Anyone in a neutral capacity? Senator McCollister, you're recognized to close. [LB587]

SENATOR MCCOLLISTER: Thank you, Mr. Chairman. And we talked about the problem that we have is balancing revenues and expenses in this body. And Senator Sullivan brought up the question, how do we replace the revenue that we'll lose if we enacted this bill? Good question. I would contend that we look at federalism as part of the process that we evaluate bills. We have various measures that we can use: the Tax Foundation, Kiplinger, Webhub (sic), which the Governor often cites, and various state studies that show us how Nebraska ranks among the states in the various measures. In this particular study, Nebraska ranks seventh. And there's no excuse for that. Nebraska should not be so high when it comes to automobile taxes. And that's the challenge that we have in this Legislature is balancing our revenues with expenses. And I

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would hope that we could do that. You know, if we could, over the long term, increase expenses by only 3 percent, there's certain areas that we could reduce some tax whether it's income tax or property tax or license plate fees. We've got to figure that out. But here's one area that deserves consideration. And with that, I'm happy to answer any more questions and provide the information that I owe Senator Davis. [LB587]

SENATOR GLOOR: Any final questions for the senator? I don't see any. Thank you, Senator. [LB587]

SENATOR McCOLLISTER: Thank you, Senator. [LB587]

SENATOR GLOOR: And that ends the hearing on LB587. We'll now move to LB613. Senator Kintner. [LB587]

SENATOR KINTNER: Can you tell I just like that bill? (Laugh) [LB613]

SENATOR GLOOR: Welcome back, Senator. [LB613]

SENATOR KINTNER: It's always good to be here especially when I don't have a fiscal note really attached to my bill. I am Bill Kintner, B-i-l-l K-i-n-t-n-e-r, and I'm representing Legislative District 2 and I'm here to present to you LB613. And this is the simplest of all simple bills. You heard Senator Davis' bill. You advanced that bill out. What my...and my bill is very similar. Matter of fact, Senator Davis and I both introduced these bills last session. We cosponsored each other's bills and we were very supportive of each other. What I want to make sure we do, if and when Congress passes the Market Fairness Act and begins to help us collect internet sales tax and we get a new stream of revenue, which to the people paying it is a new tax, this just ensures that that money goes for tax relief. In my bill, half of it goes for property tax relief and half of the money goes for income tax relief. The purpose of this is to make sure that we don't take that money, spend it, and grow government. So if we're going to raise taxes over here, we need to lower, you know, lower them a little bit over here. So I think it doesn't quite net out but essentially it's going to net out and that's the purpose of my bill. And I would hope that you advance that bill out and we'll have Senator Davis' bill out and my bill out and hopefully we can make a statement that this is the direction that we're going to go in, this is our priority. Thank you and I'll take any questions you might have. [LB613]

SENATOR GLOOR: Thank you, Senator Kintner. And yours also would do this for the first 12 months following the date that we begin collecting the revenue just as Senator Davis' bill does too? [LB613]

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SENATOR KINTNER: Yes. [LB613]

SENATOR GLOOR: So other than where the dollars go... [LB613]

SENATOR KINTNER: Yep. [LB613]

SENATOR GLOOR: ...it's really the exact same bill. [LB613]

SENATOR KINTNER: Yep. And the thing about his bill and my bill is it just, you know, makes sure that we're not going to take the money and use it to spend on something else. I mean, I think that's a very reasonable thing to do. I think you guys agree because you sent his bill out, so. [LB613]

SENATOR GLOOR: Any questions for Senator Kintner? I don't see any right now. [LB613]

SENATOR KINTNER: All right. [LB613]

SENATOR GLOOR: Thank you, Senator. You're going to stay to close? [LB613]

SENATOR KINTNER: Yeah. [LB613]

SENATOR GLOOR: (Exhibit 1) Okay. We'll move to proponents. We have another proponent letter, Bruce Bohrer, Lincoln Chamber of Commerce. Good afternoon. [LB613]

RON SEDLACEK: Good afternoon, Chairman Gloor and members of the Revenue Committee. For the record, my name is Ron Sedlacek, S-e-d-l-a-c-e-k. I'm here today on behalf of the Nebraska Chamber of Commerce and also been asked and authorized to speak on behalf of and register support for the NFIB/Nebraska, which...National Federation of Independent Business in Nebraska. When Congress is considering the Marketplace Fairness Act and the ability to change the law so that states might collect revenue in regard to, particularly, internet sales, the question becomes, to many national legislators, is this really just the tax increase? We maintain it is not and that it's a tax that is due, a use tax that is owed and should be paid. However, it's a matter of collection. The second question is, if we pass this, is it going to be considered a tax increase or is it going to be used for additional spending? And the comfort level increases when states have shown that, at least by some sort of legislative action or intent or whatever it might be that it would be considered for...not for just a tax increase but to reduce some sort of tax. In that way we enjoy Senator Kintner's bill and, of course, Senator Davis has his legislative proposal. We

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like the idea of particularly income tax relief. There was also a suggestion to use it against personal property tax and aim toward eliminating a particular tax in that regard and making it an ongoing program. But at least with this particular bill, we have components of both the income and property tax and that's why we chose to come in on this bill in a positive manner. With that, that's my testimony. [LB613]

SENATOR GLOOR: Questions? I see none. [LB613]

RON SEDLACEK: Thank you. [LB613]

SENATOR GLOOR: Thank you, Ron. Other proponents? [LB613]

JIM OTTO: Senator Gloor, members of the committee, my name is Jim Otto. That's J-i-m O-t-t-o. I'm president of the Nebraska Retail Federation and happy to be here on behalf of the Nebraska Retail Federation to testify in favor of LB613 and thank Senator Kintner very much for introducing it. Mr. Sedlacek pretty much went over the reasons that retailers really want this. There are...I mean, how it's unfair the way it is, but I'd just like to point out--and you guys are probably all familiar with it--but "showrooming" is becoming a bigger and bigger deal especially among, like electronics dealers, jewelers, those kind of...you go into a local electronics store and you actually look at the TV or whatever electronic equipment you would like. You ask the technician all about it. You figure out how to set it up in your house. And then you go, thanks a lot, and go home and buy it online for 7 percent cheaper. Retailers are committed to competing on a level playing field but to give someone who doesn't pay any Nebraska taxes, employ any Nebraska people, support any Nebraska charitable or youth teams...one of my favorite phrases is, I've never seen a youth sports team with Amazon on the uniform. So we are very supportive of this. And as Mr. Sedlacek said, many are being told that they can't vote for this because if you give the state any--I'm talking about on the federal level now--if you give the states more money, they'll just spend it on more programs. We want to assure all of our representatives in Washington that in Nebraska, it would not go to more programs but to tax reduction. With that, I'd be glad to answer any questions. [LB613]

SENATOR GLOOR: I see no questions. [LB613]

JIM OTTO: Thanks. [LB613]

SENATOR GLOOR: Thank you, Jim. Other proponents? [LB613]

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JESSICA SMITH: (Exhibit 2) Hello again. Chairman Gloor, members of the Revenue Committee, my name is Jessica Smith, J-e-s-s-i-c-a S-m-i-t-h. I'm the director of research testifying today for the Platte Institute. Thank you for this opportunity to speak in support of LB613. The Marketplace Fairness Act, which expands the authority of states to require online retailers to collect and remit state sales tax, is a result of the increased discussions between the states and the federal government regarding the estimated loss of sales tax revenue from out-of-state, online purchases. LB613 proactively addresses how the state of Nebraska should appropriate the potential increase in sales tax revenue if Congress enacts the Marketplace Fairness Act. Specifically, LB613 requires the state of Nebraska to use the additional sales tax revenue to provide individual income and property tax relief for Nebraska citizens. The Platte Institute has testified before this committee several times this session in favor of lowering Nebraska's uncompetitive income and property taxes. As we've cited before, many of our immediate neighbors have the most attractive tax environments in the country while Nebraska citizens are subject to the highest property taxes as a percentage of income and the highest income tax rates among any of our neighboring states except Iowa. When faced with unexpected increases in revenue, lawmakers should resist the urge to spend it. Since the year 2000, Nebraska state spending has grown over 67 percent. Instead of continuing this trend, Nebraska lawmakers should use this potential source of additional revenue to provide meaningful tax relief that will lead to greater economic growth. Nebraska's families and businesses deserve tax relief. The Platte Institute will continue to strongly support such efforts including LB613 and LB357. We ask you to advance this bill out of committee. Thank you for this opportunity and I'd be happy to answer any questions. [LB613]

SENATOR GLOOR: Ms. Smith, in your testimony, you've said, since the year 2000, Nebraska state spending has grown over 80 percent...is what we have printed here. You said 67 percent? [LB613]

JESSICA SMITH: Yes. I rechecked that on my way up here and I believe that it's 67 percent. [LB613]

SENATOR GLOOR: Okay. Other questions? Senator Schumacher. [LB613]

SENATOR SCHUMACHER: Thank you, Senator Gloor. And thank you again for your testimony. Since the year 2000, we've had very conservative Republican Governors, we've had conservative Legislatures, and our spending has grown, whatever, the 67 percent. And the implication is that we should use this new revenue for tax relief. But if the trend is such growth despite very conservative decision makers, why would we come to believe that we're going to be able to turn around that growth when those growth areas are the additional burden on education, the additional burden on raising young people whose parents don't make enough money to take



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care of them, and the tremendously additional burden that's yet to hit us full blown and that is the baby boomers who are retiring and coming out of production with little or no savings? Wouldn't we need this money someplace else? I mean, what makes you think that we're going to be able to magically start not only not increasing spending but actually reducing it? [LB613]

JESSICA SMITH: Sure. I believe what you're asking...I think I understand what you're asking. It's our belief that if we take this money and we do provide it for things like tax relief that we will reap tremendous economic benefits. And we think that we can do that, you know, without compromising those other areas. Now, everybody needs to cut their spending from the federal government all the way down to the states. And there are necessary programs that we've got to fund as well. But we think that providing tax relief really will reap those economic benefits that will better Nebraska and help grow our state. Does that help the answer? [LB613]

SENATOR SCHUMACHER: Well, I mean, I'm puzzled as to how we're going to pay these bills we know are going to continue to mount and increase and how this mechanism is going to work that we cut a little off of taxes--and even if you took all this money and applied it toward taxes, it wouldn't be a huge cut--how that's going to suddenly just blossom into a big economy. Can you explain how that works? [LB613]

JESSICA SMITH: Sure. I'll do my best. We look at how we can kind of provide tax relief and how that will benefit businesses, individuals, kind of all Nebraskans across the board. Now, there are expenses that we...you have mentioned. And the baby boomers are a key one that's coming up. And we are going to have some expenses down the road that we're going to have to pay and we've got key programs that need to be paid for and prioritized, absolutely. But we've got to acknowledge that and the Platte Institute absolutely does. So that's a very fair point. But we do believe that if we do provide kind of this tax relief across the board that it will help. And we also, you know, would say, Nebraska...you know, even though we've had conservative lawmakers in the...or conservative Governors, we still have increased our expenditures by, I think, somewhere between \$5 billion to \$9 billion a year, so...or I'm sorry, I think it's about \$10 billion now. So we've doubled...over...more than doubled our spending. We believe there's areas that can be reprioritized, readjusted, and that we can bring that number back down the right way while protecting those key programs and making sure things are funded and at the same time providing income tax relief. It can be done. It sounds daunting but, you know, other states are taking the initiative now and we think Nebraska needs to join them. [LB613]

SENATOR SCHUMACHER: Thank you. [LB613]

SENATOR GLOOR: Senator Davis. [LB613]

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SENATOR DAVIS: So I support the bill. I want you to know that. [LB613]

JESSICA SMITH: I do. [LB613]

SENATOR DAVIS: But what is the...how much has the state economy grown since 2000... [LB613]

JESSICA SMITH: That's a fair point. And I do not have that number exactly with me. [LB613]

SENATOR DAVIS: ...because I would like to have that if we could get that? [LB613]

JESSICA SMITH: Yeah. [LB613]

SENATOR DAVIS: And, you know, if you take 67 out, 67 percent and divide it by 15, it turns out to be around 4.5 percent. So 67 sounds horrific. It's just that after you divide it out, you realize it isn't quite what you think it is especially if the state economy is growing. [LB613]

JESSICA SMITH: Sure. [LB613]

SENATOR DAVIS: I mean, I do support the bill. I just wanted to make that point. [LB613]

JESSICA SMITH: Absolutely. That's very fair, absolutely. [LB613]

SENATOR GLOOR: Senator Harr. [LB613]

SENATOR HARR: Thank you. Thank you, Chairman Gloor. I have a couple questions. So the general consensus is that sales tax is a regressive tax meaning those who make less pay a larger percentage of their salary. So why would we want to take a regressive tax and apply it to an area, say, like income tax that is generally considered progressive? [LB613]

JESSICA SMITH: I'm trying to understand what you're saying. So you're saying, why should we take a regressive sales tax... [LB613]

SENATOR HARR: We're collecting...obviously we're collecting more than we need. [LB613]

JESSICA SMITH: Right. [LB613]

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SENATOR HARR: And then we're going to say, okay, this amount we have, instead of lowering sales tax across the board in an area that's regressive, we're going to say, let's collect this extra fund and then let's apply it to an area over here that's progressive. Why is that good public policy? [LB613]

JESSICA SMITH: We think it's good public policy because we think that that's...if we've got the additional revenue, that's where it needs to go. We think that's... [LB613]

SENATOR HARR: But why wouldn't you put it back...if you collect an area from this slice of the pie... [LB613]

JESSICA SMITH: Sure. [LB613]

SENATOR HARR: ...why wouldn't you return it to that slice of the pie and just lower our state income tax...or our state sales tax rate instead of doing income? [LB613]

JESSICA SMITH: We focus on income because we...that's basically what's specified in the bill and that's what we're here to support. But I do agree that we need some sales tax relief as well. It...I testified about this before but just, you know, retaining our competitiveness. So the bill as written goes for income and property tax relief. [LB613]

SENATOR HARR: Okay. [LB613]

JESSICA SMITH: But I do see your point. We need to provide that tax relief kind of across the board. [LB613]

SENATOR HARR: Okay. Thank you. [LB613]

JESSICA SMITH: Sure. [LB613]

SENATOR GLOOR: Senator Schumacher. [LB613]

SENATOR SCHUMACHER: Thank you, Senator Gloor. To Senator Harr's point, I think about 18 months ago, the Revenue Department released a report after they ran some big computer program that they have over there called the TRAIN model which said that you get far more bang for your buck in economic stimulus from a sales tax cut than an income tax cut. So if this is a sales tax increase then it almost would make sense to apply it to a sales tax decrease on the...on

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our sales tax and we'd have, to the extent you get any economic punch out of those kind of maneuvers, according to that model at least, bigger punch than applying it toward the income tax. [LB613]

JESSICA SMITH: I'm not familiar with that model but I would love to see it. We...when we looked at this bill, we...and from a research standpoint, we looked at the tax dividend and it's applied for income tax relief, property tax relief. If there were another bill introduced that would go towards that sales tax, that would definitely be something that we would look at. We are just kind of analyzing the bill from the income and property tax standpoint. We do believe that that...putting the sales tax issue aside, which I agree would be...would make sense and would be a good idea as well, just from an income and property tax relief standpoint, if we were just to take that money, just put it there, pretending that sales tax is off the table and we can't do it, this is a good model. This would be a good bill. This would provide tremendous benefits for Nebraskans. But I would be...I would love to see that model and...absolutely. [LB613]

SENATOR SCHUMACHER: I don't think it would be hard to find. It was well-publicized at the time. [LB613]

JESSICA SMITH: Okay. [LB613]

SENATOR SCHUMACHER: Thank you. [LB613]

SENATOR GLOOR: I see no further questions. Thank you. [LB613]

JESSICA SMITH: Thank you. [LB613]

SENATOR GLOOR: We will continue with proponents. Seeing none, we'll move to opponents for LB613. Anyone in a neutral capacity? Then, Senator Kintner, we'd welcome you to close. [LB613]

SENATOR KINTNER: It's abortion day over in Judiciary so I get to go over and duke it out over there next. So I'm not going to talk very long. But I will tell you this. This...Senator Schumacher, off mike, I will explain to you why the sales tax is the best tax for a state to provide economic growth. I will explain to you why we cannot control spending in our state and I'll explain why we have a system that's rigged to spend money. We'll do that off mike and I'll explain the whole thing to you. Is that a deal? [LB613]

SENATOR SCHUMACHER: That's a deal. [LB613]

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SENATOR KINTNER: You and I have great conversations and I enjoy talking this stuff with you and I'll explain it all to you. Otherwise, I don't have anything to add. [LB613]

SENATOR GLOOR: Any final questions for senators? Senator, you probably realize you're our last bill... [LB613]

SENATOR KINTNER: The whole year? [LB613]

SENATOR GLOOR: ...and so there's been a request from staff that you send us off with one of your famous waves, and so... [LB613]

SENATOR KINTNER: I changed it. [LB613]

SENATOR GLOOR: That's fine. It's still famous. [LB613]

SENATOR KINTNER: I've got a new one now. [LB613]

SENATOR GLOOR: That's fine. It's... [LB613]

SENATOR KINTNER: I'm...I've gone from Nixon like this to Nixon like this. (Laughter) That's my new wave. [LB613]

SENATOR GLOOR: Thank you. [LB613]

SENATOR KINTNER: All right. And by the way, I...you guys have a tough job. Thank you for all you do. I mean, I...it's just...you've got so many bills here. I'm glad I'm not sitting through your Executive Sessions. That's got to be a ball. So...but thanks for all you do. I appreciate it. [LB613]

SENATOR GLOOR: Well, thank you. And we're moving right into one. Thank you. And that will end the hearing on LB613. Thank you all for attending and we'll take about a five-minute break and then we'll convene in Executive Session. [LB613]