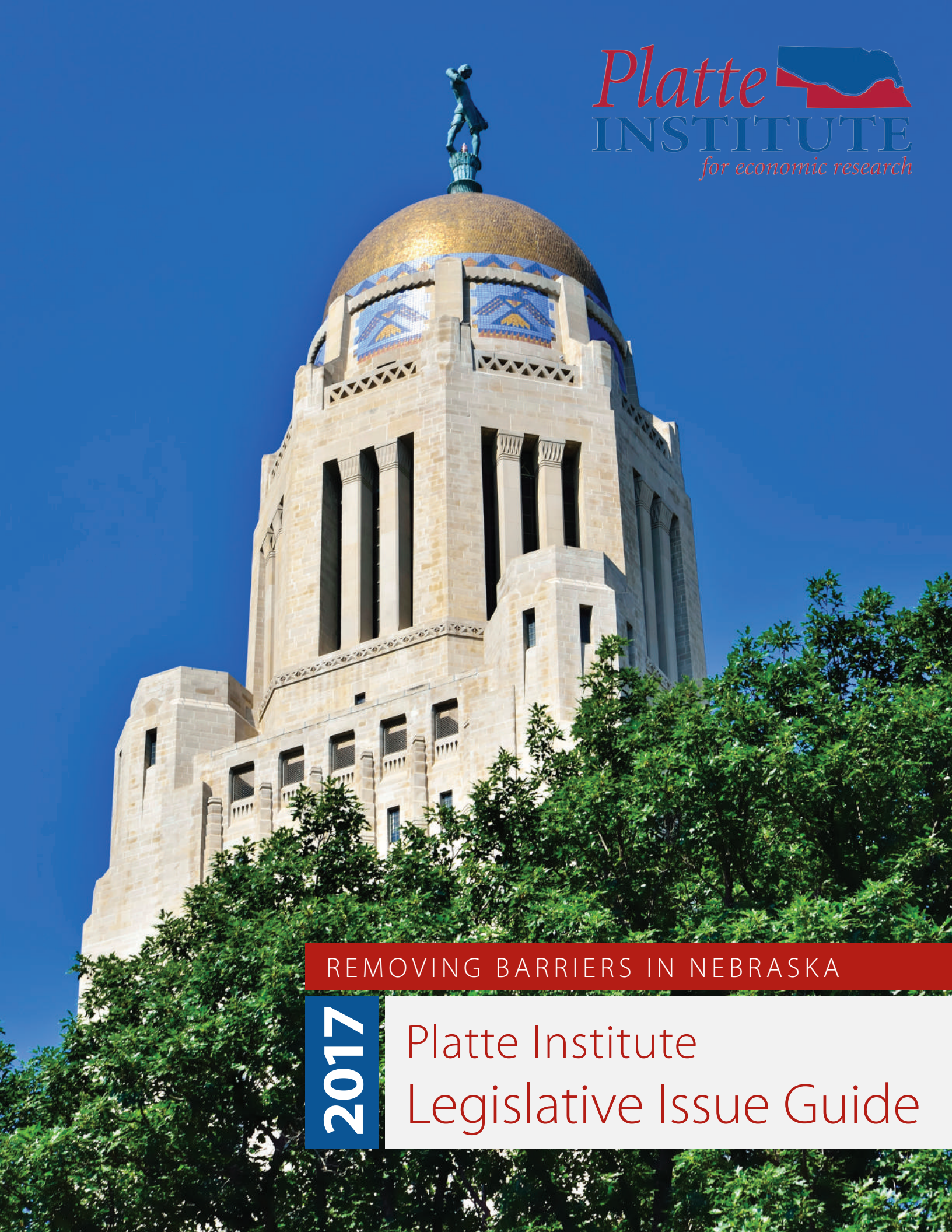
Platte INSTITUTE for economic research



REMOVING BARRIERS IN NEBRASKA

2017

Platte Institute Legislative Issue Guide

FROM CHIEF EXECUTIVE OFFICER JIM VOKAL

Dear State Senators and Legislative Staff,

All across Nebraska, there are families trying to make ends meet on a budget that isn't as flush as it used to be.

The ag economy is hitting incomes hard. Health insurance premiums are sometimes costing more than the rent or a mortgage. And more Nebraskans have been losing their jobs or are seeing their hours cut back at work, with too few opportunities for better jobs and incomes.

At the Platte Institute for Economic Research, we believe that government should never be an obstacle to success earned through honest work.

Those of us who value individual liberty and personal responsibility know government can't solve all our problems for us. But that's why it's even more important for our representatives to remove barriers to growth and opportunity in Nebraska, so that all Nebraskans can find their Good Life within reach.

Many of you have come to Lincoln because you know that sometimes, even with the best of intentions, government and special interests steal away the hopes and dreams of working families.

Nebraska is losing people, income, investment, and better jobs to other states because it imposes some of the highest tax rates in the nation. Our entrepreneurs face levels of red tape regulation often unheard of just across our state line. And too many Nebraska families, because of their income or area of residence, do not have the same opportunities for educating their children as parents in other states.

In this Legislative Issue Guide, we discuss four key policy solutions that the Legislature can implement this year to put more power in the hands of ordinary Nebraskans.

The vast majority of our citizens know that the answers to a better life won't come from higher taxes and more special interest deals in Lincoln. The prosperity of the state budget depends on the success of hardworking Nebraskans in the first place.

Through research and advocacy, the Platte Institute serves these Nebraskans and acts as a resource for lawmakers who seek practical, free-market answers to our economic challenges. We would be honored for you to review the research cited in this guide and our entire library at PlatteInstitute.org.

Thank you for all your hard work representing the people of Nebraska, and please don't hesitate to let me, or our Director of Government Relations, former Sen. Nicole Fox, know how the Platte Institute can be of assistance to your office and constituents this year.

Sincerely,

JIM VOKAL

Chief Executive Officer,
Platte Institute for Economic Research
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jvokal@platteinstitute.org

Platte INSTITUTE *for economic research*

Tax Reform

THE ISSUE

- Nebraska has one of the highest income taxes in the region. The personal income tax consists of four brackets, with a top rate of 6.84 percent that takes effect at $29,590 for single filers and $59,180 for joint filers. The corporate income tax has two brackets, with a top rate of 7.81 percent. South Dakota and Wyoming do not have income taxes. Colorado has a single-rate tax for both corporate and personal. Missouri has brackets for personal and a single rate for corporate. Kansas and Iowa both have brackets for both types of income taxes. Among our neighbors, only Iowa is ranked lower than Nebraska in business tax competitiveness, and their lawmakers are seeking tax reforms in the 2017 legislative session that could substantially change their standing.

- Both personal and corporate income taxes are among the most detrimental taxes to economic growth because they discourage work and the creation of wealth. Consumption taxes, such as the sales tax, are one of the least harmful taxes to economic growth.

- Most small businesses (partnerships, sole proprietorships, LLCs and S Corps) pay their income taxes through the personal income tax.

- Since 2008, 16 states have cut their personal income tax rates, and 15 states and the District of Columbia have cut their corporate income tax rates.

THE PROBLEM

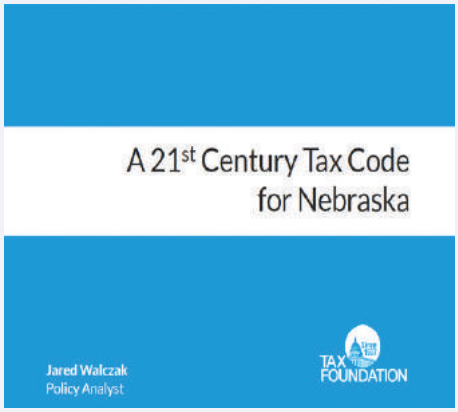
Nebraska is lagging behind the national average in both employment growth and population growth. Many of the jobs and people leaving Nebraska are going to states with lower income taxes, both within our region and across the country.

Nebraska's current tax code is penalizing people for working hard and trying to earn a living. But Nebraska is well positioned to create a more prosperous economic climate to not only keep residents, but to also attract residents from other states. By lowering our income tax rates, people will be incentivized to seek more work or make investments that create higher-wage jobs. Economic literature has found that income taxes on both individuals and corporations are among the most detrimental to economic growth, along with property taxes on business equipment.

Unlike most states, Nebraska's corporate income tax has graduated rates, which incentivizes corporations to take part in counterproductive activities to circumvent the higher tax rate.

OUR SOLUTION

The Legislature should enact revenue-neutral tax reform that reduces the top rates for both the personal and corporate income tax rates, and incorporates revenue triggers, to provide future tax reductions in years state revenue growth allows. Broadening the sales tax base to include select services that are currently exempt will allow a reduction in tax rates on working and investing in Nebraska while maintaining the current level of state revenue.



Read the Tax Foundation's recommendations for Nebraska tax reform at
PlatteInstitute.org/TaxFoundation

Occupational Licensing Reform

THE ISSUE

- Nearly 200 different jobs in Nebraska require a government license. Many of Nebraska's licensing requirements are more burdensome than our neighboring states and the rest of the country, making it harder to create many higher-wage jobs in Nebraska.

- Unnecessarily burdensome licensing creates barriers for growing Nebraska's workforce and creating new businesses. Workers who are licensed to practice a profession in another state may be unable to practice in Nebraska, but can use their licenses in our neighboring states.

- In addition to creating financial hurdles for low-income workers, military families, and new small businesses, the costs of occupational licensing are passed on as a hidden tax on consumers through higher prices. A study by the Heritage Foundation shows that comprehensive reforms could save Nebraska households over $900 a year.

- Research by the White House Council of Economic Advisers finds that many occupational licensing requirements are not correctly targeted to public needs of health and safety, and that licensing is often a less effective regulatory tool than more targeted consumer protections such as inspections, bonding or insurance requirements, business registration, or private certification.

THE PROBLEM

While some regulation will always be needed, Nebraska's regulatory policies are unnecessarily limiting entry into occupations or industries in a manner that lessens competition. As a result, fewer new jobs and new businesses are being created in Nebraska than in the states which gain the most population and income from relocating Nebraskans. Imposing job licensing requirements not found in other states reduces the upward mobility of Nebraska's workers and entrepreneurs. For example, cosmetologists or barbers have to take 2,100 hours of training in Nebraska, which can cost up to $20,000, while most states require 1,500 hours or less. A massage therapy license in Nebraska requires 1,000 hours of training, while most states require 500-700.

OUR SOLUTION

Nebraska needs comprehensive reform of occupational licensing and other regulatory policies. The Legislature can take the following steps to reduce occupational licensing burdens.

1. Make Nebraska's job licensing requirements consistent with, or more accessible, than our most reasonable neighboring states.

2. Provide greater reciprocity for workers already licensed in other states.

3. Establish a review process of existing licensing requirements within a legislative framework that prioritizes the least restrictive regulatory alternatives to occupational licensing where possible, and focus licensing requirements that are determined necessary only on essential needs of health and safety.

STRONG JOBS NEBRASKA

www.strongjobsnebraska.org

Meet the Nebraskans impacted by occupational licensing barriers at
StrongJobsNebraska.org

Pension Debt

THE ISSUE

- Omaha and Lincoln were excluded from 1983 legislation requiring municipalities to move away from defined benefit pension plans. Defined benefit plans are rare in the private sector today because the benefits offered are not based upon the pension system's actual contributions and returns.

- When defined benefit pension plan investments underperform, or are underfunded, pension debts accrue, which must be paid by taxpayers. Omaha and Lincoln each have substantial pension debts, also known as unfunded liabilities. Pension debts must be paid by municipal governments before other public services. By enrolling new employees in cash balance or defined contribution pension plans, the risk of adding more pension debt is greatly diminished.

- The unfunded liability of Omaha's police and fire pension system has recently forced rating agencies to downgrade Omaha's bond rating. This resulted in higher interest rates and less ability to effectively borrow. A more solvent system will allow taxpayer savings through lower rates and better access to funding.

- Transitioning new public employees towards pensions that have more in common with 401(k)K plans make the pensions more sustainable, more attractive to prospective employees, and limits risks for taxpayers and city budgets.

THE PROBLEM

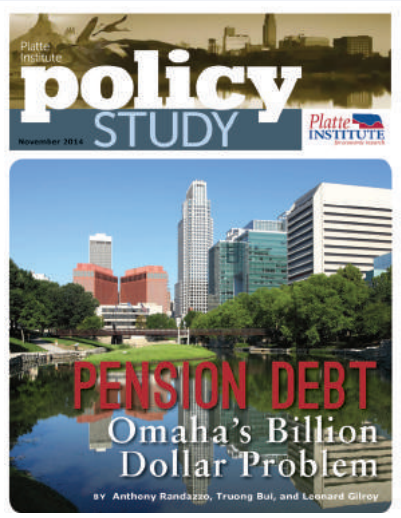
Because of the defined benefit structure of the pension systems in Omaha and Lincoln, significant pension debts have accrued. According to estimates by the Reason Foundation, Omaha faces $1.99 billion in pension debt based on the market value of its liabilities, while Lincoln's defined benefit plan has accrued $190.3 million in pension debt. Some public employee unions have agreed to transition new employees into cash balance or defined contribution systems. Unfortunately, some unions are still resisting this change, which could stop the bleeding for taxpayers.

In Omaha alone, the annual taxpayer contribution has increased from $17.7 million in 2005 to $42.1 million in 2015. To make matters worse, pension plans in both Omaha and Lincoln have not met their investment return targets. For Omaha's police and fire pension system, the rate of return for the last year was only 0.2 percent on its assets, instead of the 8 percent return the plan assumes it will earn every year. This underperformance adds tens of millions of dollars in pension debt to be paid by taxpayers.

Continuing with the insolvent defined benefit system threatens the retirement security of city employees and puts local and state taxpayers at significant risk of tax hikes and fewer public services, including essential investments in infrastructure and public safety.

OUR SOLUTION

Following the lead of the 1983 legislation which included cities of the first class, the Nebraska Legislature should pass legislation mandating all future employees of Omaha and Lincoln enter either a cash balance or defined contribution pension.



Learn more about pension reform at
PlatteInstitute.org/Pensions

Opportunity Scholarships

THE ISSUE

- State tax credits that encourage taxpayers to provide more private financial support to nonprofit scholarship granting organizations have been passed into law in 17 states, including Nebraska's neighbors in Iowa, Kansas, and South Dakota. Momentum continues to grow for education tax credits, as at least one new state has created a scholarship program in 8 of the last 10 years.

- Opportunity Scholarships increase charitable support for scholarship funds providing low- and middle-income families financial assistance to enroll their child in a private school of their choice. In Nebraska, the state tax credit would be a nonrefundable credit available to all state income taxpayers.

- Numerous studies of private school choice programs have been conducted since the beginning of the first tax credit scholarship program in Arizona in 1997. Of 18 studies using random assignment of students, 14 studies found positive academic outcomes for students receiving a private school scholarship, 2 found no visible effect, and only 2 studies, which evaluated the same program in Louisiana, found negative effects.

- Opportunity Scholarships save taxpayers money because private donors make it possible for students who were previously attending public school to enroll in private school. In Florida, a nonpartisan analysis showed that for every $1 in education tax credits offered, taxpayers saved $1.49 in education costs. In Arizona, which has the country's oldest tax credit, a review of Department of Revenue figures showed that Opportunity Scholarships were saving the public schools over $240 million a year, over four times the revenue foregone in tax credits.

Find stories of student success with Opportunity Scholarships at
PlatteInstitute.org/Scholarships

THE PROBLEM

Nebraska is one of the last states in the country that does not provide low- and middle-income families with access to educational options outside of the traditional public schools. Nebraska's key economic rivals, including Arizona, Colorado, Florida, Iowa, and Texas, have increased the educational options available to families of all income levels, providing benefits for students, taxpayers, employers, and the workforce.

A 2009 survey of Nebraska voters found that 48 percent would select a private school for their children if the option were available, but financial barriers stand in the way for most of these families. Scholarship granting organizations work hard to meet the needs of these Nebraska students, but many requests for scholarship support go unmet every year.

OUR SOLUTION

The Legislature should pass Opportunity Scholarship tax credits, which provide a nonrefundable tax credit to any income taxpayer who donates to a qualified nonprofit scholarship granting organization.

Removing Barriers in Nebraska

Stay informed with our entire Removing Barriers in Nebraska series at

PlatteInstitute.org/GoodLife

PART ONE:
Why Growing Nebraska Matters

PART TWO:
Where Are Nebraskans Moving?

PART THREE:
How Our Taxes and Spending Compare

PART FOUR:
Taking Lessons on Education Options

PART FIVE:
Economic Development vs. Economic Growth

PART SIX:
How Red Tape is Harming the Good Life

OUR MISSION

To leverage our research to advance policy solutions that remove the barriers to growth and opportunity in Nebraska. By conducting vital research and publishing timely reports, briefings, and other material, the Platte Institute will assist policy makers, the media and the general public in gaining insight to time-proven free market ideas.

A non-profit foundation, the Platte Institute relies on the resources and innovative thinking of individuals who share a commitment to liberty and the best possible quality of life for Nebraskans.

Platte INSTITUTE *for economic research*

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Platte Institute Chief Executive Officer

JIM VOKAL

Jim, a lifelong Nebraskan, adds to his record of public service a solid business and financial background. He has an unwavering commitment to the Nebraska community through key civic board positions.

Platte Institute Board of Directors

GAIL WERNER-ROBERTSON

Director and President of the Platte Institute. Founder and President of GWR Wealth Management, a family office focusing on investments, taxes, philanthropy, and legacy planning. Co-founder of Creighton University's Werner Institute. Appointed by the Governor to the Nebraska Investment Council.

SID DINSDALE

Chairman of Pinnacle Bancorp, Inc., a private family owned bank holding company. He serves on the board of directors for the University of Nebraska Foundation, Methodist Health Systems, and Ameritas Life Insurance Corporation and is involved with the Knights of Ak-Sar-Ben organization.

J. PATRICK KEENAN

Managing member of Keenan Management LLC. Past chairman of the board of Great Plains Regional Medical Center, a director of the North Platte Surgery Center, and formerly appointed by the mayor to the Quality Growth Fund Committee.

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President of Copple, Rockey, McKeever & Schlecht P.C., L.L.O. A graduate of the University of Nebraska School of Law, he presently serves on the President's Advisory Council for the University and the Nebraska State Highway Commission.

DJ EIHUSEN

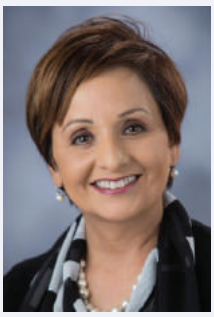
President/chief executive officer of Chief Industries, Inc. Serves on the board of directors of the Nebraska Chamber of Commerce & Industry and the University of Nebraska at Lincoln College of Business Administration Dean's Advisory Board.

OWEN PALM

President and CEO of 21st Century Holdings in Gering. A current commissioner of the Nebraska Department of Natural Resources, former president of the Twin Cities Economic Development Corporation, and a trustee of the Chadron State College Foundation.

JEFF DINKLAGE

Owner and operator of Herman Dinklage, Inc. A fourth-generation cattle feeder, he served on the Nebraska Cattle Board for four years and was a bank director for twenty years. He is also an avid Husker fan and enjoys flying.



NANCY JOHNER

CEO of Pathfinder Support Services, formerly state director and deputy chief of staff for U.S. Senator Mike Johanns, director of Nebraska's Division of Children and Family Services, and under secretary of the U.S. Department of Agriculture's Food, Nutrition and Consumers Services agency.

BRYAN SLONE

Over 30 years experience including governmental and private practice tax experience in the United States and Germany. Co-founding partner of a law firm practice in Berlin, Germany, and a tax attorney with Koley Jessen in Omaha.