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Revenue Committee
February 01, 2007

[LB334 LB366 LB430 LB453 LB510 LB511 LB684]

The Committee on Revenue met at 1:30 p.m. on Thursday, February 1, 2007, in Room 1524 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LB334, LB366, LB430, LB453, LB684, LB510, and LB511. Senators present: Ray Janssen, Chairperson; Merton "Cap" Dierks, Vice Chairperson; Carroll Burling; Abbie Cornett; Chris Langemeier; Don Preister; Ron Raikes; and Tom White. Senators absent: None. []

SENATOR JANSSEN: Good afternoon, ladies and gentlemen. Welcome to the Revenue Committee hearings for this afternoon, February 1, 2007. For the record, my name is Ray Janssen. I'm chairman of this committee. With us this afternoon are Senator White, on my right, and Senator Langemeier, and Senator Raikes is here, Senator Burling is here, Senator Preister will be here shortly, and Senator Dierks has got the first bill. So a few rules that I want you to adhere to. Our page, by the way, is Marcus. Make sure you have your cell phones turned off, not even on buzz. Turn them off, because we had one up here the other day that that buzz was louder than most rings and it's very annoying. There are sheets by each back door, testifier sheets. They're on the table back there and you need to complete them if you're wishing to testify today. If you are testifying on more than one bill you need to submit a form for each bill you're testifying on. And then when you come up to testify then drop them in the box by Erma James, our clerk, over there on my far right. We'll follow the agenda as posted on the door. Introducers or representatives will present the bill followed by proponents and opponents. And when you begin your testimony please state your name and spell it so that we can get it down correctly. If you have handouts please bring ten copies for the committee and the staff. If you have only an original we'll make copies for you. And give the handouts, then, to Marcus who will be over on the right-hand side. With that, I think I've covered all the preliminaries and we'll start out the hearings with Senator Dierks. He is going to tell us about LB334. Senator Dierks, the floor is all yours. [LB334]

SENATOR DIERKS: Thank you, Chairman Janssen and members of the Revenue Committee. My name is Senator Cap Dierks, that's spelled D-i-e-r-k-s, and Cap is like you wear on your head, and I represent District 40. LB334 is introduced on behalf of Governor Dave Heineman. The bill merges the Department of Revenue with the Property Assessment and Taxation Office. The division of Property Assessment is created within the Department of Revenue under this bill. The position of Property Tax Administrator is abolished. During my years in the Legislature I've tried to support bills that create opportunities for government to save money by combining services and eliminating duplication. This is one of those bills. Our citizens are demanding efficiency in government and relief with their tax burdens. There is no cost to the Department of Revenue to implement this bill and there's a real potential for financial savings with this merger. I think that Cathy Lang will be here to testify and so will Senator Bob

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Wickersham after I leave. I want to thank you very much for your time. If you have some questions I'll try to answer them. [LB334]

SENATOR JANSSEN: Are there any questions from the committee? If none, thank you, Cap. [LB334]

SENATOR DIERKS: You bet. [LB334]

SENATOR JANSSEN: We'll take proponents of the bill. Proponents, please. Senator Cornett has joined us also. Welcome, Senator Cornett. [LB334]

CATHERINE LANG: Chairman Janssen and members of the Revenue Committee, my name is Catherine Lang, that's spelled Catherine with a C and last name, Lang, L-a-n-g. I'm the Property Tax Administrator for the state of Nebraska. I'm here today in support of LB334, a bill that will merge the Department of Property Assessment and Taxation into the Department of Revenue and repeal the position of Property Tax Administrator. I want to first thank Senator Dierks for introducing the bill on behalf of Governor Heineman. One of the priorities for his administration is establishing efficient and effective administration of government functions. LB334 is one of many initiatives that accomplish that goal. Let me first give you a bit of history about the creation of the Property Tax Administrator and the Department of Property Assessment and Taxation. In September 1996, the position of Property Tax Administrator began as a complement to the positions on the Tax Equalization and Review Commission. The PTA was different than the Tax Commissioner in that that person was appointed for a term of six years and could be removed for cause, as opposed to the Tax Commissioner who serves at the discretion of the Governor. The responsibilities of the PTA were those that involved the Property Assessment and Taxation functions within the Department of Revenue. I believe that the position of PTA, as well as the commission, was created as a legislative response to perceptions that the assessment process in Nebraska had become too political. At that time, in 1995 and 1996, the Legislature took aim at the state officials involved in the assessment function. In 1999, after the introduction of the assumption of county assessment functions, it was determined that it might be in the best interest of both the department and the property tax division that the division should become a state agency. At that time the Department of Revenue was the only state agency in which there were two directors--one created by statute, the other created by state constitution. Over the past 10 years, I have discussed the function and need for the position of the PTA as well as the agency. The purpose of these discussions was to assure the continued viability of this position and the agency. As creatures of the executive branch we must always assure that we are meeting the objectives of law as well as the efficient operations of government. Property Assessment and Taxation, as an agency, performs two distinct, but related, functions. We perform the assessment functions in nine counties in Nebraska and we perform the measurement of the assessment of real property in 93 counties in Nebraska. Within the

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agency there is also a legal and policy division, a technology division, and various administrative functions. LB334 will merge the Department of Property Assessment and Taxation into Revenue. The functions of the merged agency will be the responsibility of a new division within Revenue--the division of property assessment. This merger will allow the Tax Commissioner to create efficiencies by removing redundancy in operation. Both agencies will perform similar administrative functions and the merger will allow for the consolidation of those functions. The functions currently performed by the Department of Property Assessment and Taxation are not changing. The new division within Revenue will manage the nine assessment offices and perform the measurement function which is relied upon by the Tax Equalization and Review Commission in their duty during statewide equalization. We will continue to provide the same information to the commission, to county assessors, and to other persons interested in the property assessment and taxation aspects of Nebraska's tax structure. There is an amendment that we have been working on for this bill. The amendment corrects or makes clearer the intent of the bill. And I do want to thank Chairman Wickersham for his review of LB334, as he has pointed out several issues that we are now addressing in this amendment. I believe that Revenue Committee counsel, George Kilpatrick, does have that amendment available. One concern that may be expressed about this merger is that the data provided by the department may no longer be unbiased. Concerns may be expressed that if the data is provided by one who serves at the discretion of the Governor, that the Governor may attempt to influence the data. I feel confident that there has never been a manipulation of the assessment information. I can tell you from my 25 years of experience in the assessment process, both with the Department of Revenue and the Department of Property Assessment and Taxation, that we have never manipulated the data. If there are concerns that our past structure allowed for political influence in the assessment process, I believe those concerns are addressed and were addressed when we created the Tax Equalization and Review Commission. I do not believe that this merger will increase the possibility of that occurring. I urge you to advance LB334 from committee and I would be happy to answer any questions. [LB334]

SENATOR JANSSEN: Questions? Ron. [LB334]

SENATOR RAIKES: Cathy, so you're operating inefficiently now? [LB334]

CATHERINE LANG: I believe that the structure of government does not provide for the most efficient operation that we could have, and so we are proposing that we change the structure. [LB334]

SENATOR RAIKES: But you are operating efficiently with the structure we now have? [LB334]

CATHERINE LANG: I believe that within our agency that we are operating as efficiently

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as possible as you isolate that function within a separate agency. [LB334]

SENATOR RAIKES: But you're also saying you think your efficiency is inhibited by the fact that you're not a part of the Department of Revenue. [LB334]

CATHERINE LANG: That would be correct. [LB334]

SENATOR RAIKES: Okay. And what specifics can you cite? [LB334]

CATHERINE LANG: I believe that by bringing the two agencies together that we will be able to find...within each agency there are functions that each agency is performing, and I believe that by bringing those functions together, such as administration, technology, policy, and legal, by bringing those together with the Tax Commissioner we can find ways to create efficiencies in those operations. In terms of the measurement function or the assessment function, which I view as distinct from functions that are duplicative or duplicated in the Department of Revenue, I believe we are performing those functions efficiently at this time. And the other thing we always look for is advancements in technology to help us do it even more efficiently. [LB334]

SENATOR RAIKES: One other question, if I may. [LB334]

SENATOR JANSSEN: Sure. [LB334]

SENATOR RAIKES: I pay taxes in a county that you assess. [LB334]

CATHERINE LANG: Yes. [LB334]

SENATOR RAIKES: So the way it is right now, if I call the Governor and say look, I don't like the job of assessment... [LB334]

CATHERINE LANG: Um-hum. [LB334]

SENATOR RAIKES: ...the Governor has kind of a firewall. Look, I appoint the PTA, you know. She's doing the job the way she thinks or maybe something less complimentary, but there's nothing I can do about it. And I'll have an opportunity in six years or something to review this, but for right now that's it. Under this arrangement, Governor, I don't like what's going on. I want you to fire the assessor of Saunders County. [LB334]

CATHERINE LANG: That could not happen. [LB334]

SENATOR RAIKES: Oh. [LB334]

CATHERINE LANG: You can not just go out and fire the assessor of Saunders County.

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Either the state appraiser or the state assessment manager are employees of the state of Nebraska and they do not serve at the pleasure of the Governor. [LB334]

SENATOR RAIKES: But, okay, where you do the assessing.. [LB334]

CATHERINE LANG: Um-hum. [LB334]

SENATOR RAIKES: ...for Saunders County. So you are the person responsible for what goes on in that county, right? [LB334]

CATHERINE LANG: That is correct. [LB334]

SENATOR RAIKES: But now you're operating at the pleasure of the Governor. You were an appointee of the Governor, but now you're a less secure employee. [LB334]

CATHERINE LANG: The plan would be that my position would be repealed. That I myself would become the deputy state tax commissioner. That the function of assessment would now be performed within the Department of Revenue. And so I suppose, are you trying to get at the issue that if the Governor were to not be satisfied with the assessment capabilities within Saunders County that he could reach down through either to the Tax Commissioner or beyond and change the manner by which we do business in Saunders County? Is that what your concern is? [LB334]

SENATOR RAIKES: I appeal to the chair. I'm being asked a question and it has to go the other way. (Laughter) [LB334]

CATHERINE LANG: Oops. That's right. As I have restated that question, if that were the one I were to be answering, and I don't want to not answer your question, I guess I view the operations of government perhaps a little differently. I think the law is very clear how assessment officials need to do their job, and I guess the defense against the possibility that there would be complaints about how we were doing our business, one, we need to examine those complaints and if we are not doing it well we need to do it well; however, if we are doing it well and we are doing it within the framework of the law then I don't think any changes would need to be made. Does the Governor now, perhaps, bear more of the burden of that? I don't know that. [LB334]

SENATOR RAIKES: Okay. Thank you. [LB334]

SENATOR JANSSEN: All right. Any other questions? Cathy, I have a couple. Now, your position is still going to be there. The only difference will be that you will be under the Department of Revenue, which actually you were before, sort of. Is that correct? [LB334]

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CATHERINE LANG: Slight variation on that. The position I currently hold, officially, the Property Tax Administrator, will no longer exist as of July 1. The plan is that I will become, on July 1, the Deputy Tax Commissioner. So as a person, I don't think I'm disappearing from state government and I would then be within the Department of Revenue. The staff of the agency, and there are 74 staff members, would then become employees of the Department of Revenue. [LB334]

SENATOR JANSSEN: All right. That leads me to my next question. Will there be a reduction in staff? [LB334]

CATHERINE LANG: The efficiencies gained from the merger of the two agencies are things that Tax Commissioner Ewald and I are still working on. We've been pretty focused on getting information ready for the legislative session and, as of yet, we haven't devoted as much time as we'd like to to examining the organization. We plan for efficiencies and we plan for lower costs. [LB334]

SENATOR JANSSEN: So then that is where the efficiency will be seen. You know, our biggest expense in any department are employees and, you know, and the only way you can get savings then is by reducing the amount of people that are working there. [LB334]

CATHERINE LANG: That's correct. [LB334]

SENATOR JANSSEN: Yeah. Where would other savings be? [LB334]

CATHERINE LANG: There may be other savings in terms of combined technology initiatives. For example, I will give you one that we are examining. We have a request for a proposal that we plan to release soon that will provide what we hope is a state data warehouse of all property information. Other states have something similar to this, the state of Kansas, the state of Wyoming. That data then could also be used by the Department of Revenue's staff in terms of doing their data mining for tax enforcement. [LB334]

SENATOR JANSSEN: Okay. Thank you. Any other questions? Seeing none, thank you very much for being here today. [LB334]

CATHERINE LANG: Thank you. [LB334]

SENATOR JANSSEN: Any other proponents? Any other proponents? All right, seeing none. How about opponents? Any opponents? Anyone in a neutral capacity? [LB334]

BOB WICKERSHAM: Senator Janssen, members of the Revenue Committee, my name is Bob Wickersham. I'm appearing as a member of the Tax Equalization and Review

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Commission on behalf of the commission. The commission is required to annually equalize taxable values for real property in the state of Nebraska. That process is highly dependent on data and analysis supplied by the Property Tax Administrator. In addition, the Property Tax Administrator appears as an expert witness to explain the data and reports to the commission. The Property Tax Administrator's staff also appears during the annual equalization process to both inform the commission and to make recommendations. Under current law, the Property Tax Administrator serves a six year term, insulating that position from day to day direction. Because the Property Tax Administrator enjoys independence, independence is attributed to the Property Tax Administrator's staff. Independence was a reason for the creation of the commission and the Property Tax Administrator's position. LB334 replaces the Property Tax Administrator with the Tax Commissioner as the commission's primary source of information for statewide equalization. The Tax Commissioner is not granted a six year term for performance of that function. The commission believes that the real and perceived independence of the commission and those it relies on for information and advice is important in the conduct of its annual equalization process. If LB334 is advanced, it should be advanced with amendments that retain the office of the Property Tax Administrator with a fixed term, or a person other than the Tax Commissioner, specially designated to perform the equalization duties currently assigned to the Property Tax Administrator, as a source of information and advice to the commission. Senator Janssen, that would conclude my remarks. [LB334]

SENATOR JANSSEN: Thank you, Mr. Wickersham. Any questions? No, you're not getting away. Ron has a question for you. [LB334]

BOB WICKERSHAM: Senator? [LB334]

SENATOR RAIKES: So, Bob, is this suggestion going to ruin all these efficiencies that we're going to gain? [LB334]

BOB WICKERSHAM: Senator, I really do not know enough about the internal operations of either Revenue or the Property Tax Administrator's office to speculate about efficiencies. [LB334]

SENATOR RAIKES: But you have made it clear that that independence is a concern. [LB334]

BOB WICKERSHAM: Senator, as a further answer to your earlier question, as you know, most decisions are of balancing. Sometimes there's a cost, sometimes there's a benefit, and a reality for either one of those. Where that balance would lie in this instance, I think is for the Legislature to decide. [LB334]

SENATOR RAIKES: Okay. Thank you. [LB334]

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SENATOR JANSSEN: Any other questions? Seeing none, thank you, Bob, for being here today. Next neutral. [LB334]

GREG LEMON: Good afternoon, Chairman Janssen, members of the Revenue Committee. For the record, my name is Greg Lemon, G-r-e-g L-e-m-o-n. I am president and registered lobbyist for the Nebraska Tax Research Council. We represent over a hundred nonprofit organizations that represents over a hundred both for profit businesses and government entities throughout the state. Testifying in a neutral capacity on LB334. Cathy Lang did a good job of going through the history. I won't go through that, but the Tax Research Council generally stays neutral on tax policy issues, but on tax administration, perhaps, we may talk a little more. In this situation, what we're looking at is the merger, obviously, of an agency and the possibility of savings of a few thousand dollars in a situation where we're talking about the administration of a billion dollar-plus property tax system, and I think we would just like to state what the committee already knows. That the important thing here, I think, is not...although we stand for efficiency in government, we also stand for efficiency in the tax system to make sure that this does not have any adverse effects on the property tax system and its administration. Secondly, I think that the committee knows, and I personally feel that Cathy Lang will do a good job making sure that the state property tax system is administered well, whether this bill passes or not. What the committee and the Legislature needs to look at is what's the best structure if there's someone less good in the position in the future. Lastly, would offer if there are concerns about this bill and perhaps to increase the level of accountability that the Governor has talked about to, perhaps, put a friendly amendment in there asking for a report from the Department of Revenue after a year or after a year and two years, talking about the efficiencies they've achieved. Talking about the level of services and level of administration of the property tax system before the bill went into effect and after. With that, I thank the committee for their time and would be glad to answer any questions you might have. [LB334]

SENATOR JANSSEN: Any questions? Carroll. [LB334]

SENATOR BURLING: Thank you, Mr. Lemon. When this was put in place, 10, 11 years ago, was there a noticeable increase in services or costs or do you want to comment on that? [LB334]

GREG LEMON: You know I do not. I did do a little bit of the legislative research on the legislative history of this, but I can't comment on that. [LB334]

SENATOR BURLING: Okay. [LB334]

SENATOR JANSSEN: Any other questions? Senator Langemeier. [LB334]

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SENATOR LANGEMEIER: I'm going to ask one. Thank you, Chairman Janssen. I'm going to ask you a little question here. As you merge these together and you have the Tax Commissioner and now you have the second in command, and the first is government appointee, works at the will of the Governor. Second one gets appointed for six years. And Senator Raikes, following his question, he thought that pressure down could be great. My question is what if there is no pressure down? If the commissioner then goes to this appointed person that's there for six years and asks them to do something, they could say hey, you're, you know, you're at the will of the Governor. I'm not. I don't really think we need to do that. Would there be some risk of maybe no trickle down that needs to happen? [LB334]

GREG LEMON: Yeah, I certainly think that's a risk. Obviously, you know, with elected officials you have a little bit more of an immediate accountability than with a long term appointment. [LB334]

SENATOR LANGEMEIER: Okay. Thank you. [LB334]

SENATOR JANSSEN: Any other questions? Seeing none, thank you. [LB334]

GREG LEMON: Thank you. [LB334]

SENATOR JANSSEN: Anyone else in a neutral? Don't see any. So that will...Senator Dierks isn't here to close. So with that, that ends the hearing on LB334 and I have the next bill up. So I will turn the chair over to Senator Preister. [LB334]

SENATOR PREISTER: Senator Janssen, whenever you're ready please proceed. [LB366]

SENATOR JANSSEN: Thank you, Senator Preister. LB366 gives the Legislature three more options to consider in cutting taxes in Nebraska. I felt as though we had to have several options out there. Some of them will be palatable with the committee and some of them won't, but I believe that we have to pursue all areas if we are going to help our state become a more efficient state. This bill removes the community college's authority to levy property taxes and reduces the property tax funding for that service. The second thing it does, the bill provides for a reduction in the taxable value of agricultural land by reducing the assessment level from 75 percent of actual value to 70 percent of actual value. This reduces the burden of taxes on agricultural land, which is high compared to our neighboring states. We all know that. The bill provides for a \$12,000 homestead exemption for all homeowners on the homes that they own. I wanted the Legislature to have before them, as I said before, several alternatives for cutting taxes so that the impact and the effectiveness of each could be approached and examined. I think that when we're in this mode we should have many things before us to look at. Committee staff has some amendments to harmonize the bill as drafted, and we will provide you

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with those at a little later date. I might add that counsel's father is sick so that's why he's not here with us today. But with that, I would try to answer any questions you might have. [LB366]

SENATOR PREISTER: Thank you, Senator Janssen. Are there questions for the Senator? Seeing none, thank you, Senator Janssen. [LB366]

SENATOR JANSSEN: Yes. [LB366]

SENATOR PREISTER: We will then take any proponents. Anyone interested in testifying in support of this legislation please come forward. And if anyone else wishes to testify please come up in the front and be ready. And if there are any opponents, likewise. Please proceed when you're ready. [LB366]

STEVE NELSON: All right. Thank you. Good afternoon. My name is Steve Nelson. I'm the first vice president of Nebraska Farm Bureau and I'm a farmer from Axtell. [LB366]

SENATOR PREISTER: And Mr. Nelson, if we could ask you to please spell your name? [LB366]

STEVE NELSON: Yes, it's Steve, S-t-e-v-e and Nelson, N-e-l-s-o-n. [LB366]

SENATOR PREISTER: Thank you. [LB366]

STEVE NELSON: We do want to thank Senators Janssen, Cornett, Dierks, and Fischer for introducing LB366. Let me begin by extending the appreciation of many farmers and ranchers across Nebraska to this committee for your leadership last year in addressing our concerns about high property taxes. The reduction in agricultural land values contained in last year's package is very appreciated. Agriculture, as a whole, will benefit from your efforts to provide property tax relief. Unfortunately, though, we still have work to do and that is why I am before you today in support of LB366. Property taxes continue to frustrate not only farmers and ranchers in Nebraska, but all citizens. This year we, again, are provided with the opportunity to address long standing concerns with property taxes. An analysis performed for the Nebraska Farm Bureau by MLB Planning and Policy Research showed property taxes paid by the average Nebraska farmer were \$7,535 in 2002, significantly higher than any other of our neighboring states. The analysis estimated taxes per average farm in Kansas at \$3,153, in Colorado at \$1,895, in Iowa at \$6,237. LB366 would help reduce these discrepancies with our neighboring states. LB366 meets many of the requirements our members look at in providing property tax relief. The measure would provide broad tax relief. The relief would be real and significant for farmers and homeowners. It is efficient in that for state tax dollars spent property taxpayers would feel the relief, and it provides for long term structural changes in the tax system that assured continued property tax relief.

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Nebraska Farm Bureau has long-standing policy in support of removing the authority of community colleges to levy property taxes. While we support higher education and recognize the need for the services provided by community colleges, our organization does not believe postsecondary education should be funded with property taxes. The measure also reduces the level of value for agricultural land from 75 to 70 percent. There are several reasons why we believe such a reduction makes sense. It would mitigate the influences of non-agricultural factors in the market for agricultural land and it would help keep agriculture, in Nebraska, competitive with our bordering states which assess agricultural land at percentages considerably less than Nebraska. And it would further provide property tax relief for farmers and ranchers. LB366 would provide a homestead exemption of \$12,000 for all homesteads. This exemption would provide property tax relief for all residents. In closing, the Nebraska Farm Bureau supports LB366 because it sets the state on a policy course to provide broad property tax relief. And as we stated yesterday, we are more than willing to work with the committee to develop a package that provides meaningful tax relief. Thank you for the opportunity to provide these comments and I would be happy to answer any questions at this time. [LB366]

SENATOR PREISTER: Are there any questions from committee members? Senator Raikes. [LB366]

SENATOR RAIKES: Would you say this is property tax relief or is this a tax shift? [LB366]

STEVE NELSON: I guess I would say it's both. I mean it... [LB366]

SENATOR RAIKES: So you're comfortable with a proposal that would not reduce the expenditure level, but would simply shift who pays for it? [LB366]

STEVE NELSON: Say that again, please. [LB366]

SENATOR RAIKES: Well, and I probably didn't make myself clear. If there's something in here that is going to allow for, like the last bill, efficiencies or something then you could at least argue that well, this has the advantage or benefit of reducing the cost of government versus we're going to have the same cost we've always had, it's just that we've got a new group paying for it now. [LB366]

STEVE NELSON: Well, we would support both, I think. [LB366]

SENATOR RAIKES: Okay. Let me then ask you this. Particularly on community colleges, there are three sources of funding there--state, local, and tuitions. If you want to relieve the property tax or the local part of it, is it an option to cover more of the cost with tuitions? [LB366]

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STEVE NELSON: Well, I suppose that's an option, but we wouldn't see that as the only option. It really...as far as the community colleges go, we just don't believe that any higher education should be financed with property tax dollars. [LB366]

SENATOR RAIKES: Okay. Thank you. [LB366]

SENATOR PREISTER: Any other questions from committee members? Seeing none, we thank you for your testimony. [LB366]

STEVE NELSON: Thank you. [LB366]

SENATOR PREISTER: Next proponent please come forward. And as proponents come up if you would hand your sheet to the committee clerk, that would be helpful first, and then do your testimony. Thank you. [LB366]

PETE McClymont: Senator Preister, members of the Revenue Committee, I'm Pete McClymont. That is P-e-t-e M-c-c-l-y-m-o-n-t, and I am the vice president of legislative affairs for Nebraska Cattlemen. So I won't be too redundant in the comments that Steve just made to you, but obviously, property tax relief is essential to what we want to do. Changing the land valuations from 75 to 70 is a terrific start. We believe in that wholeheartedly. And the homestead exemption is great. We testified last week on Senator Fischer's bill on the community college issue. So my comments there would still be the same today. Obviously, we feel it's an unfair burden to place the vast majority of the funding of the community colleges on one segment of the taxation system and property taxes. So for that, to see relief or a shift, Senator Raikes, is not a bad thing. Obviously, we'd like to reduce taxes, but a shift nonetheless takes the highest burden off property taxes. So with that, I'd conclude my remarks and be happy to answer any questions the committee has, Senator. [LB366]

SENATOR PREISTER: Thank you. Are there questions? I see some brewing, but only in the thoughts, not in words. (Laughter) So you're excused then. We thank you for testifying, Pete. [LB366]

PETE McClymont: All right. Thank you. [LB366]

SENATOR PREISTER: Next proponent. No other proponents? Any opponents? [LB366]

DENNIS BAACK: (Exhibit 1) Senator Preister and members of the Revenue Committee, for the record, my name is Dennis Baack, B-a-a-c-k-, and I'm executive director of the Nebraska Community College Association, appearing in opposition to the portion of LB366 that calls for the reduction of our ability to have property tax levy authority for the community colleges. I do have a handout for you, too, to look at. This bill did appear, a

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similar bill, appeared before the Education Committee last week and we testified in opposition to that bill. My testimony won't be much different here, but we do have a different audience so I'm going to give you a little bit of it anyway. Senator Raikes, you can take a nap if you need to, because you've heard this before. The community colleges right today serve approximately 30,000 FTE students, or full time equivalent students, across Nebraska, and about 150,000 head count that we serve. So that's approximately one in every 10 people across the state of Nebraska has some contact with their community college each year. So we do have a very broad base in Nebraska. One of the things that I think you need to take into account is the actual cost of taking this over. I know that hasn't been mentioned yet, but we in the last year, we levied about \$81.5 million of property tax. So that would certainly become part of the burden of the state. There's about a little over \$25 million of long-term debt that is backed up by property tax that would certainly become a responsibility of the state if the state takes this over. And each year, last year we levied about \$11.6 million in capital levy. That's for repair and maintenance of our facilities. Right now we have an operational levy. The levy limitations that exist on community colleges are 6 cents for our operations, and 1 cent for our capital levy. That's what we have as far as levy limitations go. The last few years we have been able to exceed those levies, because the state has not lived up to their responsibility in our funding which is supposed to be 40 percent of our funding coming from the state level, 40 percent coming from property tax, and 20 percent from tuition. We have not gotten that funding from the state. We're over \$20 million short this year. We will be appearing before Appropriations to certainly try to move that number down and hopefully, at some point, get back to full funding again, which will certainly change the levies at that point. In the community college, we only collect about 3 percent of the property tax across the state is collected by community colleges. We're a very small portion of the total tax that's collected across the state. We don't have that much of it. One of the things that's really interesting, and you'll be able to see this from the chart that you have in front of you, part of the chart is enrollments and that shows you what's happened to enrollments over the years. If you look for those 10 years or so, we have continued to grow every single year, and we do continue to grow. And we're one of the few sectors in higher education, I think, the private universities and colleges are the only other sector that's grown very single year for those last few years. So we're providing more and more service over those years. The other chart that you see there is a levy history chart and that's one of them I want to bring to your attention. One of the things that the Legislature has the ability to do today without changing any kind of statute at all is to drive the operational levy for community colleges to zero. They can do that. Our formula works such that if the Legislature puts enough money into our formula, our operational levy will go to zero. And if you look at that chart that you have, in '98-99 was the year that we first went into the new formula that we have today. The next year we were in our new formula and the state decided that they could put extra money into the community colleges, and look what happened to the levy in those years when they did that. They put \$30 million over their 40 percent portion into the community colleges, and for those two years those levies dropped to just a little over 2 cents across the

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state. Our formula is built such that we have automatic property tax relief built into it and it automatically goes to every single district in the state. It's not like the school aid formula that's doesn't happen that way. Our's automatically has to happen that way. Any dollars the Legislature puts in in over-funding our formula, beyond their 40 percent, automatically have to be used to reduce property taxes. If a college would decide that they're not going to reduce their property tax, they immediately lose all the state aid that they would get. That's the consequence of not complying with that. So it's a very firm kind of commitment that we have to having a formula that will provide you an avenue for property tax relief. And quite frankly, this bill, where it does not call for...this bill was a little bit different than Senator Fischer's bill, because Senator Fischer's bill called for the creation of a state system and that would have included a person to be in charge of that state system. It would have included a state board and all the other things that go with it. It's very similar to probably, to the state college system. This bill does not change our structure at all. It leaves the local boards in place. That decision-making would take place at the local level again. My guess is, though, if you look at the kinds of things where the state is fully in charge of the funding, over the years my guess is that that local authority could be eroded over the years, and the state might start looking at maybe we ought to be making those decisions here since we're furnishing all the money. That's a possibility under that scenario. But we feel very strongly that those local boards are a real important part of what the community colleges do and we feel that we're a little bit different than the other parts of higher education, because we have that community commitment. We're very much more on the local level than the other sectors of higher education. We try to deal with regional needs. We deal very closely with business and industry in providing training and retraining for their workers to try to upgrade the work force in the state of Nebraska. So we feel that we're a little bit different than the other sectors and that's why we're funded a little bit differently. And I think the Legislature looked at that back in the mid-seventies when they put this system together. Probably our biggest concern with this whole thing, though, is the sustainability of it. You know, right now there's lots of dollars here on the state level, but if you look at what happens to the state revenue picture and it certainly goes in cycles, about four-year cycles or so, if you look. So you may have lots of money today, but four years from today you might not have very much money and you start making cuts. When that occurs, if we do not have the ability to use property tax it's going to put an awful lot of pressure on tuition. And you saw what happened to the state college and universities in the last couple of years. When there were cuts, there were some huge increases in tuition. We also had increases in tuition in community colleges, but we had some property tax we could rely on, too. So our tuition rates didn't have to go so high. And one of the reasons we feel that we need to keep our tuition as low and as economical as we can is because we're supposed to be the most open and accessible system of higher education in the state. And the population that we appeal to is the population that probably needs to have good economical access to higher education and we feel that's a very, very important piece of what we do in the community colleges. And if the sustainability is not there, and the state finds themselves in financial difficulty, we could

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certainly have a case where our tuitions would grow and be too high for some of the people to have access. Any time we raise tuition you're probably cutting access for someone. So we try to be very careful as we raise tuition in the community colleges. With that, I'd be happy to answer any questions. [LB366]

SENATOR PREISTER: Are there questions from committee members? Senator Raikes. [LB366]

SENATOR RAIKES: Just looking at the charts you handed out that shows the levies... [LB366]

DENNIS BAACK: Um-hum. [LB366]

SENATOR RAIKES: ...for the various areas in 2006-07. Is it the case that Western Community College folks, the typical property taxpayer gets twice as much value as does someone in Metro? The levy in Western is 10.65. [LB366]

DENNIS BAACK: That's correct. [LB366]

SENATOR RAIKES: The levy in Metro is 5.64. [LB366]

DENNIS BAACK: Um-hum. Do they get twice the value? [LB366]

SENATOR RAIKES: Yeah. [LB366]

DENNIS BAACK: No. I don't think you can say that. I think what you have to look at is why is that the case. And the reason is because of the valuation base they have and the formula that we have in existence for distribution of state aid for community colleges is very heavily weighted to equalization. Trying to...if the state fully funds, if they fund their portion, Senator Raikes, those levies will only range from 5.3 to 6.0. If they fully fund their portion. But under today's, the scenario today is Western is making up for the loss of state aid and that's why their levy is so high. And a good share of Western's aid is in the form of equalization, because of their small property tax base. [LB366]

SENATOR RAIKES: But it's not equalized if they have to increase their levy a whole lot more in order to make up the difference than does Metro. [LB366]

DENNIS BAACK: No, it's not equalized now. When the state doesn't fully fund it, no it is not equalized. The equalization part comes when the state fully funds their portion, their 40 percent. And Western gets hit the hardest, because their equalization piece of our formula is the highest. There's no doubt about that. And it's one of the reasons that we changed the formula in '98-99, was to try to get away from that, because even in that year itself we had operational levies ranging from 12.5 down to 6 cents. And that was

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the time when Senator Warner said well, that's too much discrepancy. That's not an equal access kind of issue for those students who want community college education, and that's when we put into place the formula that we have today and the state took on a bigger obligation. I mean, the first year that we went into that formula I think the state put in \$14 million more than they ever had before, and the next year seven more million. So they added a lot of dollars in to boost their portion of it and drive those levies back to more of an equal basis. [LB366]

SENATOR RAIKES: Although it doesn't look like it's working. If we want equal levies across the state, it doesn't look like it's working. [LB366]

DENNIS BAACK: If you want equal levies across the state, if the Legislature lives up to their 40 percent portion of their funding, they will look much more equal. They will look at 6.0 to 5.3. That will be the variation. And I think that's probably as close as we can get across the state. As the state cuts down their funding, no, it does not look equal at all. [LB366]

SENATOR RAIKES: Okay. Thank you. [LB366]

DENNIS BAACK: Um-hum. [LB366]

SENATOR PREISTER: Senator White. [LB366]

SENATOR WHITE: Yes, thank you, sir. [LB366]

DENNIS BAACK: Sure. [LB366]

SENATOR WHITE: To follow up on Senator Raikes' question then, is it fair to say that if we fund community colleges through state tax revenues, the benefit of that funding will fall unequally. It will not be shared equally by a person who lives in Omaha with a person who lives in Fremont, a person who lives in North Platte, and a person who lives in Scottsbluff or the surrounding farming areas. There will be winners and there will be losers. Some people will get more relief than others. [LB366]

DENNIS BAACK: Yes, property tax relief. Absolutely. Because... [LB366]

SENATOR WHITE: Okay. So we are not...we take a tax we collect on a statewide level, but if we follow this system the benefits...the rain is going to fall on some people's places and not very much at all on others. Isn't that true? [LB366]

DENNIS BAACK: Well, the property tax relief will not be as much in all the districts. That's absolutely true. [LB366]

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SENATOR WHITE: So we will have winners and we'll have losers rather than have equal benefits spread equally across the state. [LB366]

DENNIS BAACK: But you also have to remember too, that once the state lives up to their portion, even the Metro community college and Southeast Community College whose levies are much lower than the other ones, do get a bigger share of the state aid. So they will get more state aid. What has happened in those two districts, to speak to that issue, one of the reasons that you don't see their levy quite as high is because their boards have made a decision that tuition's going to pay more of that. And if you look at Southeast Community College, the students of that one, their percentage of funding is about 33 percent, and in Omaha it's about 30, at Metro. So they made a conscious decision to keep the property tax rate down, but tuitions have gone up at those two institutions. So that's part of the reason that there is a differential there, but under a full funding system I think that Metro, they get about six to eight million dollars more of funding. And that will be able to keep them from having to raise tuitions and being able to level that out again. [LB366]

SENATOR WHITE: Now local control is important... [LB366]

DENNIS BAACK: Yes. [LB366]

SENATOR WHITE: ...as you've testified. Correct? [LB366]

DENNIS BAACK: Yes. [LB366]

SENATOR WHITE: And in this case what you've just described are some local community college boards have made the decision to bite the bullet and raise tuition rather than raise property tax, correct? [LB366]

DENNIS BAACK: That's correct. Um-hum. [LB366]

SENATOR WHITE: But the plan to fund the community colleges rewards those who said no, we'll keep tuition low, but we'll raise property taxes disproportionately, does it not? Because they get more state relief. [LB366]

DENNIS BAACK: Well, but it also relieves the pressure on the colleges that were using tuition to increase the percentage that students were paying. When they get this additional state aid they'll be able to lower that percentage that those students have to pay of their education, because they will get more state aid. [LB366]

SENATOR WHITE: Now you've been around the world for a few days, you and I both. [LB366]

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DENNIS BAACK: A few days, yes. [LB366]

SENATOR WHITE: Yeah. Have you ever seen power not follow money? If we fund you do you really think a guy like me in Omaha is not going to want to reach out and tell Scottsbluff raise your tuition, because we're biting the bullet in Omaha? [LB366]

DENNIS BAACK: Well, that's very possible. You bet. [LB366]

SENATOR WHITE: Do you think that's consistent with what community colleges were meant to be? [LB366]

DENNIS BAACK: No, not necessarily. And quite frankly... [LB366]

SENATOR WHITE: It's inconsistent, isn't it? [LB366]

DENNIS BAACK: Yeah, but quite frankly our tuitions right now, if you look at the tuitions across the state they are almost identical across the state. If you look at tuition and fees, there's only a \$4.50 differential between what the lowest one charges and what the highest one charges. They're very similar across the state. [LB366]

SENATOR WHITE: You mentioned a concern on whether when we have tough times--and we will have tough times--for revenue again... [LB366]

DENNIS BAACK: Oh sure. [LB366]

SENATOR WHITE: ...how the community colleges will do. I mean, you've seen the Governor's proposed budget for the university system. Does that cause you concern? [LB366]

DENNIS BAACK: Oh certainly. [LB366]

SENATOR WHITE: Okay. Well, we have a dispute right now between some of the community colleges over certain revenue issues, do we not? [LB366]

DENNIS BAACK: Yeah, it's fairly well resolved, I mean because we've, I mean, internally we have kind of got that worked out now that there does need to be a redistribution within our formula. There is a bill before the Education Committee that does that. [LB366]

SENATOR WHITE: Isn't this type of funding going to perpetuate struggles between western or rural areas and different community colleges with each other for limited funding here in Lincoln, rather than resolving them on the ballot box back in the districts which the colleges serve? [LB366]

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DENNIS BAACK: I don't know that this perpetuates it any. I mean, the biggest problem comes within our funding and stuff for community college, the biggest problem comes when the state does not live up to their part of the bargain. Because then within the formula itself if you have one college that grows and another one that does not grow, they kind of take from each other, because the ones that grow get more money next year. The ones that didn't grow get less money. I mean, they kind of take from each other. But the way our equalization works, if the state funds their 40 percent, then you don't have them taking from one another anymore. [LB366]

SENATOR WHITE: Well from the state lawmaker's perspective trying to responsibly spend money that's very tough to get out of the taxpayer, the problem often is whether or not the local communities college's boards are spending responsibly. [LB366]

DENNIS BAACK: Sure. [LB366]

SENATOR WHITE: We, at this point, don't control how they spend, but you want us to fund it. Does that seem responsible? It's like me giving my 15 year old son my credit card and saying have a good time. [LB366]

DENNIS BAACK: Yeah. Well, I don't think it's any different than what you do for K-12 education. I think you do exactly the same thing. [LB366]

SENATOR WHITE: And that should give us comfort? [LB366]

DENNIS BAACK: No, not necessarily. [LB366]

SENATOR WHITE: Okay. Thank you. [LB366]

DENNIS BAACK: Not necessarily. But I think my boards and the boards across the state are very cognizant of the taxes that they charge and they do not like raising taxes, I can guarantee you that. They're citizens just like you and me that work on those boards. [LB366]

SENATOR WHITE: And that is a very good point, but if the money is coming from the state it's not their problem to raise it. We have to raise the taxes. They get to spend it. Isn't it more likely to promote fiscal responsibility, tightfisted management if those community college boards have to go back to their neighbors, look them in the eye, and say yeah, I took more of your money? Rather than just coming to they used to call it uncle sugar, I guess it's state sugar here, to get the money. Isn't that likely to promote tougher more fiscally responsible management? [LB366]

DENNIS BAACK: I'm not so sure that it does, quite frankly. I don't think they look at that

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as free money that they get from the state. I think they look at it they pay income and sales taxes, too, just like everybody does, but as you and I both know the majority of the sales tax and income tax in the state comes from three counties. I mean, it just does. And it's redistributed across the state. You know, when I was in the Legislature I represented a very rural district. And I used to have constituents that used to say to me geez, if we could just get back from the state of Nebraska what we put in we'd be happy. And I kept saying no, you would not be happy. Because it's one of those scenarios that you've got, you know, a community college takes a certain amount of infrastructure to have a community college. You've got to have a certain amount of basic infrastructure. And regardless of what the size of your population base is or anything, you have to have a certain amount of infrastructure to do it. And that infrastructure in a Southeast Community College or a Metro Community College is much bigger than what the infrastructure is at Western, but they have a lot more population to spread it over, you know, and more chance for growth, for students. They just do, because of the population base. [LB366]

SENATOR WHITE: As a final question... [LB366]

DENNIS BAACK: Sure. [LB366]

SENATOR WHITE: ...if I understand what you're saying is you want the state money, but you want the ability to continue to tax property. So you want your cake and you want to eat it, too. [LB366]

DENNIS BAACK: We do like having the three portions of funding for community college, both having tuition and state dollars and the local property tax. Yes, we do. [LB366]

SENATOR WHITE: Thank you very much. [LB366]

DENNIS BAACK: Um-hum. [LB366]

SENATOR PREISTER: Senator Burling. [LB366]

SENATOR BURLING: Thank you, Senator Preister. Mr. Baack. [LB366]

DENNIS BAACK: Yes. [LB366]

SENATOR BURLING: Capital levy, one mill? [LB366]

DENNIS BAACK: One mill is the capital levy, yes. [LB366]

SENATOR BURLING: Now is that a limit? [LB366]

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DENNIS BAACK: Yes. [LB366]

SENATOR BURLING: Okay, and the operating levy is... [LB366]

DENNIS BAACK: Is six. [LB366]

SENATOR BURLING: And never the two shall mix? [LB366]

DENNIS BAACK: No, you cannot use operational levy to run your operation. No. Those are restricted funds, have to be used only for repair and maintenance of facilities or building new facilities, but they cannot be mixed. No. [LB366]

SENATOR BURLING: So if there was no state funding... [LB366]

DENNIS BAACK: Um-hum. [LB366]

SENATOR BURLING: ...could you meet your needs with six mills? Six cents? [LB366]

DENNIS BAACK: Six cents across the state if there was no state funding? Oh absolutely not. I mean, if it was only six mills, that was the absolute limit, and there was no state funding that went with that, you would close probably four of the six community colleges. They could not operate on that. No. [LB366]

SENATOR BURLING: So if there was no state funding you would have to come to us for an increase in the levy limit for you? [LB366]

DENNIS BAACK: Right. For some of them, yeah. Yeah. [LB366]

SENATOR BURLING: Or raise tuition? [LB366]

DENNIS BAACK: Right. Right. Or be under, you know, under a formula that we had before the one we have today where there was no upper limit and stuff and then you started getting the big disparities and how much property tax was paid at each of the districts. That's what would happen. At that point, I think Western was operating at 12.5 cents and I think Northeast, maybe, was the lowest at about 6.5. So you had a big variation there. [LB366]

SENATOR BURLING: Thank you. [LB366]

DENNIS BAACK: Um-hum. [LB366]

SENATOR PREISTER: Senator Cornett. [LB366]

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SENATOR CORNETT: Senator White asked a question and I don't think that you addressed it completely. [LB366]

DENNIS BAACK: Okay. [LB366]

SENATOR CORNETT: His question was under this bill do you see a discrepancy or do you see one segment of the taxpayers gaining a benefit at the expense of others? Does this benefit others more? In regards to property tax relief. [LB366]

DENNIS BAACK: Yeah. The benefit will be, you know, in Western Community College their tax benefit will be more than it is at Metro Community College, because there's a very big discrepancy in levy. [LB366]

SENATOR CORNETT: Big discrepancy. [LB366]

DENNIS BAACK: Yes, that is true. But at the same time, if the state does fund their portion of it then Metro also receives a good deal more state aid than Western gets or...you know, I mean, they just do. And then they could use that to possibly take some of the pressure off of tuition and not have to deal with that. [LB366]

SENATOR CORNETT: Okay. [LB366]

DENNIS BAACK: If you look at the property tax rates across the state, yes, there's a differential, because you see them going all the way to 10.6 at Western for operations, and if the state funds their portion their's would be at 6.0, Metro's would be at about 5.3, I believe. [LB366]

SENATOR CORNETT: Okay. Thank you. [LB366]

DENNIS BAACK: Okay. [LB366]

SENATOR PREISTER: No further questions, thank you, Senator Baack. We appreciate your testimony. [LB366]

DENNIS BAACK: You bet. [LB366]

SENATOR PREISTER: Next opponent? No other opponents? Neutral? Anyone in a neutral capacity? Please come forward. [LB366]

MARSHALL HILL: (Exhibit 2) Senator Preister, members of the committee, my name is Marshall Hill, M-a-r-s-h-a-l-l H-i-l-l. I'm executive director of the Nebraska Coordinating Commission for Postsecondary Education and here to say a few words in a neutral capacity on just the first part of the bill that's being discussed, that is the question of

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community college funding. Really to provide you some background information which might be helpful to you in your deliberations, your page has passed out a chart which is the latest available data on how states around the country fund their community college systems. As you'll see, there are three principle sources of community college funding. The first is from state appropriations, the second from local property taxes, and the third from tuition and fees that individual students pay. First, you'll notice that every state provides state level appropriations to their community colleges. The percentage of that funding varies considerably, as you'll see. And second, you can also see that every community college in the nation charges tuition and fees to their students. So the principal variable is whether or not they tax local citizens for appropriating community colleges. It's a decidedly mixed bag. There are 29 states which do rely on local tax support for community colleges, 21 which do not. By and large, you'll see that most of the time, obviously, if one of those factors is not present the others obviously have to rise. In general, the ones which do not provide some degree of local appropriation have a higher percentage reliance on tuition and fees for students. I would like to just reemphasize a point that Dennis Baack made, is that the community colleges are nationwide viewed as the most accessible sector of higher education, and in Nebraska the type of students which we are seeing increase as a percentage of our number of students are the students who are most unlikely to be able to afford high tuition levels. So the community college has indeed been increasing in enrollments over the past 10 years. We can provide you information on that. I'm mainly here to just provide this background information to you and offer our assistance if you would like any additional information about community college funding around the country. [LB366]

SENATOR PREISTER: Thank you. Are there any questions from committee members? Seeing none, we appreciate your testimony, Mr. Hill. [LB366]

MARSHALL HILL: Thank you. [LB366]

SENATOR PREISTER: Thank you. Next neutral testifier, please. [LB366]

NANCY SALMON: (Exhibit 3) Good afternoon, Senator Preister and members of the Revenue Committee. My name is Nancy Salmon, S-a-l-m-o-n. I'm the Hamilton County assessor. I just would like to testify neutral on just two portions of LB366. One is ag land being valued at 70 percent. If that's the choice of the Legislature, obviously, as an assessor I will abide by the law and the decision. Just a couple things I'd like to point out. On the spreadsheet I used the 2006 data from Hamilton County that shows you what portion at 80 percent, because obviously in 2006 we were valuing at 80 percent. Had it been 75, 70, 65 what percent would be ag land value? I also showed you down below what it would do to the county levy. If the ag land values are lowered or changed, it's just that some of the counties are at their levy limits and they may have to find other sources of revenue or they may even have to start cutting some of the services. I know our county is one that we're still okay, but it could happen that some of these counties

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are going to run into some problems. Also, I have two schools in my county that had to do levy overrides this year, by vote, and if we take much more valuation away from them I'm not sure what's going to happen in some of those situations. Obviously, they'll have to start cutting. And also I think that we could also see just a little bit of a shift in the tax burden here. We're going to need a certain amount of tax dollars to operate. It has to come in. So it could put more burden on residential and commercial. Secondly, as an assessor, I'm happy to administer a homestead exemption for everyone. I think that's a great way to do it. I only have a question. Being in the office for 24 years, when I began everyone that owned and occupied their home did get, I believe it was \$600 exemption right off the top of their valuation that was refunded back from the state tax. Another year I think there was a bill passed, and I can't give you the year, that they were going to allow homestead for everyone. The staff, everyone came in, filed the form, we processed the forms, then there was no money. So my only concern is if there is a homestead exemption for everyone, which I think is a great way to do it, make sure that we're going to have the money for more than one year. By the time we hire programming to redo our programs, take my staff off of doing reappraisal work which we know now needs to be done consistently, that we think about that. And I'd be happy to answer any questions if you have any for me. [LB366]

SENATOR PREISTER: Questions? Senator White. [LB366]

SENATOR WHITE: Yes, ma'am. [LB366]

NANCY SALMON: Yes. [LB366]

SENATOR WHITE: The homestead exemption would not be, again, necessarily equal across the state. Isn't that true? Some counties may have higher levies than others. [LB366]

NANCY SALMON: Yes, that's correct. [LB366]

SENATOR WHITE: And in addition, it is money that is replaced by the state. Correct? [LB366]

NANCY SALMON: That's correct. I would hope. [LB366]

SENATOR WHITE: And the state government, for example, does not oversee how a local school board spends their money or the county does. Isn't that true? [LB366]

NANCY SALMON: That's correct. [LB366]

SENATOR WHITE: So the state might be in a position of subsidizing reckless spending, because we don't know. [LB366]

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NANCY SALMON: That's right. [LB366]

SENATOR WHITE: Thank you. [LB366]

NANCY SALMON: You're welcome. [LB366]

SENATOR PREISTER: Additional questions? Seeing none, we thank you for appearing before us today. [LB366]

NANCY SALMON: Thank you. [LB366]

SENATOR PREISTER: Next neutral testifier. [LB366]

CATHERINE LANG: Senator Preister and members of the Revenue Committee, I'm Catherine Lang, Property Tax Administrator for the state of Nebraska, and my last name is spelled L-a-n-g. I'm testifying in a neutral capacity on LB366. The purpose of my testimony is to provide general information from my perspective as the Property Tax Administrator, related to this and other bills that propose to amend our policies on property taxation. In recent years, several measures have been adopted to provide property tax relief. In 1989, the state provided approximately \$110 million in aid to local governments to offset the amount of property taxes collected. These funds were distributed through an 8.5 percent reduction in the taxable value of all property. Unfortunately, no controls were placed on the fiscal capacities of local government and so most of this aid was actually used to increase the spending requests of local governments. The comments from citizens at that time were what property tax relief. Several proposals have been offered in the past that would attempt to attack the property tax problem through the valuation aspect of the property tax structure. Measures of addressing agricultural land valuation including the earning capacity approach to value or adjusting the level of assessment of agricultural land. Additionally, the homestead exemption is probably the most targeted property tax relief measure. It provides partial or total tax relief from the property taxes to certain qualified owner occupants of residential property in order to comply with the constitutional requirements for the homestead program. So far the measures I have discussed have resulted in shifting tax responsibility from the property tax to the state general fund or shifting the property tax responsibility to other property in the taxing jurisdiction. Providing state aid or reducing value may provide a one year impact to the amount of property taxes paid, but unless you continue to provide additional aid or additional reductions in value you only delay the inevitable increase in those taxes to a later year. How many of us have heard the complaint, well, my property taxes may have gone down in 1998, but they went right up the very next year. So I don't call that property tax relief. Since the mid-1990's there have been three fundamental aspects of fiscal control at work regarding property taxes. Together they come as close as possible to providing property

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tax control. The controls are levy limits, budget or expenditure limits, and state aid or additional revenue sources. When used together, these policies are the most effective in addressing several state and local tax policy issues. One, a levy limit by itself may mean nothing. Alone, it provides an upper limit on the rate a governmental subdivision can assess the property value. They're similar to income tax rates or sales tax rates in that economic analyses can be made to compare Nebraska to other states. So you can always ask is it fair that we have a 1.66 rural average rural rate, or about, or just over a 2 percent rate for urban property and whether or not that's fair. Two, budget or expenditure limits may be the most important aspects of property tax control. These tell local governments how much they can grow their spending from one year to the next. In a way these are sort of like a cost of living increase or similar to a salary increase that individual citizens may experience. Currently, these limits are on the total budgets or expenditures of local government, not just the property tax aspects for these entities, and I think there are good reasons for that given the fact that we do provide a significant amount of state aid to local government. Three, state aid or additional sources of revenue offset the need to access the property tax to fund governmental services. In recent years, the most significant source of state aid is the aid to K-12 education through the Tax Equity and Educational Opportunities Support Act, or TEEOSA. Since 1989, this source of revenue has provided up to 45 percent of the funding for K-12 education. Other sources of revenue for local governments, cities to be exact, is the local option sales tax. Additionally, other local governmental entities have had state aid in various forms and amounts. State aid, like other state fiscal situations, are more dependent on the strength of the current economic climate than the property tax is. These three fiscal controls have been used to varying degrees to control the growth in property taxes over the past 10 years. Of course, property taxes are so local in nature that many times our generalities about the trends or the changes in property taxes do not comport with what has actually happened in a particular location or to a particular property. But our data does show that for many of the past 10 years we have held property tax growth to below the same growth rate as inflation. So maybe we should ask ourselves if that's property tax relief. I know the committee will have several proposals to consider and I would welcome the opportunity to provide any kind of analysis that you might want from our agency or to brief any of the committee members on any of the aspects of these proposals. Thank you and I'd be happy to answer any questions. [LB366]

SENATOR PREISTER: Thank you, Ms. Lang-Morrissey. Senator White. [LB366]

SENATOR WHITE: Ms. Lang, there is another, perhaps, more fundamental control for property tax and that's the voters watching their local representatives to ensure that they're not wasting their money. Isn't that true? [LB366]

CATHERINE LANG: That would be correct. [LB366]

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SENATOR WHITE: So wouldn't you say that is the first and primary defense against runaway property taxes? [LB366]

CATHERINE LANG: I agree with you, however, I would just give one caution to that. And that is if we're looking at, perhaps, the three primary users of property tax--schools, cities, and counties. Well, we are asking our citizens to do is to understand the budget and spending patterns of those three entities. Sometimes I do wonder whether or not our citizens have the time and the energy as they devote the remaining part of their lives...you know, to their own lives, if they have the time and energy to look at those issues. [LB366]

SENATOR WHITE: Well, of course the problem then is endemic to democracy. I mean, graven above the stones in this building is the salvation of the state is the watchfulness of the citizens. If we cannot trust them to do their job truly where do we go? [LB366]

CATHERINE LANG: That is correct. I don't disagree with you. [LB366]

SENATOR WHITE: My concern with state aid and those other issues is it tends to remove the consequences of spending at a local level from the political ballot box and those who make those judgments. Anytime consequences are removed from decisions I think you invite irresponsibility. If I am the school board and I can spend a bunch of money, but I don't have to shortly and immediately answer to the voters in that area, I am less responsible and I'm more inclined to do things that may not be in their best interest. Do you agree? [LB366]

CATHERINE LANG: I agree with that and in fact, in that regard what we have done over the past numbers of years is tried, through our data, to provide some sort of picture to that overall local spending pattern, not just the property tax, but the overall spending pattern. And we have provided data on our website that combines not only the property taxes levied, but let's say the motor vehicle taxes levied, plus the amount of money that is provided in state aid to try and give a picture of what that local spending pattern looks like. I do not disagree with you on that. [LB366]

SENATOR WHITE: Thank you. [LB366]

SENATOR PREISTER: Senator Raikes. [LB366]

SENATOR RAIKES: I wanted to pursue, I think you were talking a little bit about the, maybe, the history or the record regarding property tax relief and to simplify or try to get a hold of what you were saying. Suppose I've got a house, pretty much the same house for the last 10 years. I didn't double its capacity. New construction and we're not going to count bond issues which I voted for. So we're excluding voter-approved bond issues and we're excluding new construction. Would it be fair to say or should I expect more

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than, in my situation, that my property tax asking increased at the rate of inflation?
[LB366]

CATHERINE LANG: And I think that's a very important question, and in fact, we have begun to provide that similar kind of analysis on a county by county basis on our website. We show, by county, now right now what we have is from 2005-2006, we know the overall state change was 7.01 percent, and then what we're trying to show is of those 7 percentage points how much was as a result of increase in bonds, taxes attributed to new value growth, and then the remainder we assume then is borne by existing property. And what did that feel like to that existing property owner? What we've just started to do with that is we've gone back to 2001, which is as far as our cleanest data goes back, to show that same trend, statewide now, over that 6-year period of time. We want to roll that out and do that same history trend, 6-year trend, for each county. Now, again, it's each county, but we're trying to drive our data down to have it as local as we can make it with the data that we have. I mean, the statewide trend has been that. Now we had one year where the existing property experience just over a 6 percent increase in a single year, from one to the next, but that was the year that the state was experiencing economic shortfalls and we had a cut in the amount of state aid and shifted it back to the property tax. But you can see that sort of pattern. And I think that's an important pattern to show. And so we're developing that to provide that on the web page. [LB366]

SENATOR RAIKES: Okay. Thank you. [LB366]

SENATOR PREISTER: Senator White. [LB366]

SENATOR WHITE: Yes, to follow up on Senator Raikes, in fact, if the local taxing authority is able to hold the rate of increased spending to the rate of inflation of the property that can create enormous hardships. Do you agree that, for example, in Omaha, homes in my neighborhood, my district, inflated quite rapidly, and yet most of the residents did not see an increase in their salaries. Many of them in fact are on social security. So the tax bill went up, but their ability to pay did not. And there was a divergence. And isn't this, in fact, the fact pattern that preceded proposition 13 in California. California, long before we did, experienced rapid inflation of real estate and homes, but wages did not go up so the people in those homes suddenly found they couldn't afford to stay there, and it led to a taxpayer revolt. Is that accurate? [LB366]

CATHERINE LANG: I think that's accurate for California. That's correct. [LB366]

SENATOR WHITE: And if that situation is to occur in Nebraska, in other words, land continues to rapidly inflate, both ag and homes, but the ability to the income, which means the ability to pay the taxes doesn't change, we're going to face a revolution, too. A tax revolt. [LB366]

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CATHERINE LANG: And I agree with you. And yet, I would say one of the controls that we currently have in place that can be used to address that is the limits that we have either on budget growth or on expenditure growth. There's two out there. If you ratchet those down and control them in those leaner years then...I don't want to overstate this, but no matter what happens to your value, your overall taxes will increase. And we have shown that in terms of some of the data we have on our website where--this is from memory--cumulatively since '97, I believe the property value has increased statewide. Approximately 144 percent. The property tax increase is not the same as that. In fact, it's significantly less than that. [LB366]

SENATOR WHITE: How about the income increase which means the ability to pay? [LB366]

CATHERINE LANG: Well, and we can...for example, Senator Raikes' question went to the issue of well, do you want to measure our property tax growth against the rate of inflation. We could measure it against the growth of personal income and we could see, maybe for you, you would prefer to see an analysis that looks at it that way, and we can work to do that. [LB366]

SENATOR WHITE: There's another method we can use to help that. [LB366]

CATHERINE LANG: Um-hum. [LB366]

SENATOR WHITE: The income tax reaps money from those who are making more money and hopefully have a greater ability to pay. And when times are good we can use that source to relieve the pressure from property tax owners, can't we? [LB366]

CATHERINE LANG: And I think those are items that you will be discussing as we move forward. [LB366]

SENATOR WHITE: Yes, indeed. Thank you. [LB366]

CATHERINE LANG: You bet. [LB366]

SENATOR PREISTER: Any other questions? Seeing none, we thank you again for your testimony. No further neutrals? I should say it more positively. Any final neutral testifiers? Seeing no one come forward, Senator Janssen, would you like to close on LB366? [LB366]

SENATOR JANSSEN: Nope. [LB366]

SENATOR PREISTER: Senator Janssen waives closing. That will conclude the hearing

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on LB366 and I will turn the proceedings back over to Senator Janssen since I need to leave for introducing a bill in another committee. [LB366]

SENATOR JANSSEN: Senator Langemeier, LB430, change of property tax levies. We're all ears, Senator Langemeier. [LB430]

SENATOR LANGEMEIER: Thank you, Chairman Janssen and members of the committee. As you read at the agenda here on this line it says change property tax levies. And we've had a discussion here today about local control. And everybody in this room as well as all of us strive for local control, but yet we put on levies. And truly what's a levy for? To control what the local control does. And so LB430 is fairly simple and I'm going to go right to the fiscal note. I had my presentation here. We're going to go right to the fiscal note, because that's the big issue in this whole bill. LB430 reduces the levy limit for school districts, from \$1.05 to \$1, beginning in 2008-09 year. And the levy limit for learning communities also lowers 5 cents, from \$1.02 to 97 cents, reduction of 5 cents. It's got a fiscal note of \$70.8 million. Am I here today to chime in and say that we're doing property tax cuts? I would more be willing to say this is a shift. I'm not scared to say that. It is a shift and I think this shift takes the burden of education to where the burden on education comes from. As we increase our state aid to compensate for the \$70.8 million to cover this, it truly is a shift to a taxing form that then would be more suited to the burden that's put on the community. And with that, I'm going to stop there, because I think it summarizes it enough and I know there's going to be people to testify behind me. I know there's a thought that if we do this then we're back to the subject of the state fully funding. I think that's a commitment we have to have to fully funding to have some property tax relief. And with that, I'll conclude and if there's questions I would take those. Otherwise we'll go to a number of testifiers that are going to come behind me and probably go into all this in a little more detail. [LB430]

SENATOR JANSSEN: Any questions? Don't see any, Chris, thank you. We'll take proponents to LB430. Proponents. [LB430]

JAY REMPE: Senator Janssen, members of the committee, my name is Jay Rempe. That's J-a-y R-e-m-p-e. I'm state director of governmental relations for Nebraska Farm Bureau Federation, here today on behalf of Nebraska Farm Bureau in support of LB430. Again, this represents another consideration for the committee to look at in the way of property tax relief and we want to support any way and means that we can provide property tax relief. If you recall, in the mid-nineties the Legislature set out a course to look at property taxes levied by schools, and ratcheted down the levies eventually getting to a dollar. But because of the state budget problems in recent years, that was ratcheted back up and now is at \$1.05, but that dollar has always been kind of a benchmark out there for our members to look at in terms of funding schools and property tax relief, and for that reason we're up here today supporting the bill. A couple things that it does that might be a little different from other proposals. One is we're

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looking at things that might provide long-term structural relief and this does that in the sense that it does reduce the levy limits. And then it also would provide relief to all property sectors across the state, whether you're ag, residential, commercial, whatever. It would provide that relief as well. So with that, I'll be happy to answer any questions you might have. [LB430]

SENATOR JANSSEN: Questions? You get off the hook, Jay. Next proponent. [LB430]

PETE McClymont: Senator Janssen and members of the committee, I'm Pete McClymont, Nebraska Cattlemen, P-e-t-e M-c-c-l-y-m-o-n-t and I will be back up here many times the rest of the day. Obviously, as you and the legislative body will have many options before you this year to address tax burden and reduction, this is one way. So I'm not going to elaborate. Just to say that we're supportive of going from \$1.05 to \$1 and just echo everything that Jay stated in his testimony. With that, I would conclude and hope this bill goes forward out of committee, and would be happy to answer any questions, Senator. [LB430]

SENATOR JANSSEN: Any questions? Ron. [LB430]

SENATOR RAIKES: Just one, Pete. There's been, I think, a belief, maybe a documented experience that when you lower the operating levy for schools which is what Senator Langemeier's doing here, you get a corresponding increase in bond levy for that year. You can have people say well, look, you can vote for this bond issue for this new building and it's not going to raise your property taxes. And it seems to work. [LB430]

PETE McClymont: Um-hum. [LB430]

SENATOR RAIKES: Given that, is it a good idea to do something like this? [LB430]

PETE McClymont: Well, I think with anything you're going to have good and bad. Obviously, how local authorities do things to make their school systems better and how they spin it to people, but I would concur with what you said so that's the hard part about that. Correct. [LB430]

SENATOR RAIKES: Okay. Thank you. [LB430]

SENATOR JANSSEN: Any other questions? Seeing none, Pete, that's it. [LB430]

PETE McClymont: Thanks. [LB430]

SENATOR JANSSEN: Next proponent. Any other proponents? Seeing none, any opponents? Any opponents? Anyone in a neutral capacity? Senator Langemeier to

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close. [LB430]

SENATOR LANGEMEIER: I'll be very brief, but I think Senator Raikes brought up a good point there about a potential increase in bond. I know we have had people come before us, want us at the state level to pay for buildings, and request funds from us out of general funds to improve. I think, Schuyler would be one, for example, that can't pass bonds. I think this would allow, if that were the case, I would look at that positively. I think it would give local control, the local voters, the opportunity to scrutinize what that bond may be versus us just giving them state dollars and they just figure out how to spend it. This would give them the opportunity to scrutinize what that bond might be, what their facility's going to look like, will it truly meet their needs, and then have the voters vote on it and see if there's an agreement that they would approve that. With that, I conclude unless there's questions. [LB430]

SENATOR JANSSEN: Sure. [LB430]

SENATOR RAIKES: Senator, I agree with you and certainly it is the case that, you know, I can't argue against passing bond issues at the local level, particularly, you know, the Schuyler situation and there's many others across the state. On the other hand, it does make the state look like it's double talking when, okay, here's a reduction in the levy lid and this will reduce your property taxes, and then when you look at the result they didn't go down. [LB430]

SENATOR LANGEMEIER: I think you have a point there, but I also think it gets back to your local entities are making that decision. You know, I think it's kind of interesting as we talk about property tax relief and we talk about all the relief options that are out here. If you look at statewide, the success rate for new schools, new streets, new bonding, you know, it's the number one thing we hear about is property tax. But yet, communities all across this state continue to vote in bonds for new streets, new schools. At a local level they want the amenities. [LB430]

SENATOR WHITE: And if we divorce the pain of paying for those how much bigger will their appetite get? [LB430]

SENATOR LANGEMEIER: That is a good question. [LB430]

SENATOR JANSSEN: Any other questions? Chris, just a statement or two. I know a lot of districts that this would happen in, because they could go to the people and say now look, if you pass this bond issue you're not going to see an increase in the levy. Because we had a reduction of 5 cents. The structure that we're looking at would be less than 5 cents on a bond. So actually they would still see some relief in that district, but you could accomplish some things. I know several districts that this could happen in--several of them--and Schuyler is one of them. [LB430]

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SENATOR LANGEMEIER: Right. And with that said, and if people are willing to do that to stay at the same levy limit and get their bond and not build on, why are we even talking about property tax relief? And why do we listen to our constituents tell us about property relief, that they request property tax relief? When if we provide a tool that they just put themselves right back to that limit. [LB430]

SENATOR JANSSEN: Of course the bond issue, though, is a majority of the people and it is has to carry by a majority within those districts. [LB430]

SENATOR LANGEMEIER: Correct. [LB430]

SENATOR JANSSEN: So that actually is, you know, at least 51 percent of the people are going to say yes, so still have to. [LB430]

SENATOR LANGEMEIER: I agree. [LB430]

SENATOR JANSSEN: Seeing no other questions, thank you, Senator Langemeier. [LB430]

SENATOR LANGEMEIER: Thank you. [LB430]

SENATOR JANSSEN: Senator White is the next bill, LB453. [LB453]

SENATOR WHITE: (Exhibit 4) Good afternoon, Mr. Chairman, my fellow Senators. I'm here to introduce LB453. LB453 is a direct response to concerns that have been expressed to me by literally hundreds, probably thousands of taxpayers during the last year. Overwhelmingly as I worked to be elected across my district, I was told that the number one concern of the voters was property tax relief. I happened to run at the same time that a bill, 423, was on the ballot which would have put spending caps on the state government, and in my opinion would have devastated our ability to properly fund the state government and direct the state's economic development. The one thing that I seem to find effective to blunt people's desires to vote for 423 was it would raise property tax and the promise and the hope that the Unicameral would hear them about their concerns. LB453 is different, and quite different, from the Governor's and other tax proposals. I have a chart I'd like to have passed out. It was published in the Omaha World-Herald but it shows you who gets what money and when they get it. LB453 provides for an income tax credit, an immediate credit, of \$500 and it provides it to every Nebraskan who pays property tax on a primary residence. We do not have disparity on what is given to a resident taxpayer of Scottsbluff or one from Omaha. We do not have disparity from what is provided to a farmer and what is provided to a factory worker. We do not have disparity from what is provided in the way of money to a multimillionaire and to an hourly wage laborer. The bill is calculated, carefully

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calculated, to respond to a political demand by what I believe are our bosses--the voters of this state. They want clear, understandable, immediate response from their state government to establish, again, the trust that we are being fiscally prudent. That we are being stewards of their interests and not of the interests of various constituencies who don't vote, but who often populate the halls of this building. Now one of the things that's essential to recognize in LB453 is that it provides cash back to the voter, back to the taxpayer. It is intensely supportive of local control. I believe the most fundamental control on government are the voters and that is how it is designed to be. We talk about caps, we talk about lids, we talk about different issues, and in the end all they are are crutches. The best defense of good government are informed citizens who have a stake, an immediate stake, in the outcome of a decision. The people of Scottsbluff face far different challenges and problems. They have far different resources and abilities than the citizens in Benson and Dundee that I represent. They make determinations after local elections. They are hotly contested. They discuss. They decide what they can afford. They choose their priorities and they enact them. To stuff money into, for example, community colleges is to tell the people of the state of Nebraska in Benson and Dundee we blindly endorse whatever decision Scottsbluff made. That is not consistent with local control. What we should do is give the money back to the citizens of Scottsbluff, back to the citizens of Benson, Dundee, South Omaha, Lincoln, Kearney, Holdrege. Give it back to them. They are responsible for overseeing the local government. Once this money is back in their pocket the local politicians who control the property tax levies can easily come to them and make the pitch that we need that school bond now. We are not endorsing or making it easier for there to be greater government spending, but what we are doing is something equally important. Nebraska, I believe, has high property taxes because of our history as an agricultural state. We funded ourselves based on our basic industry back when the vast majority of our citizens lived on the farm. And property tax was a fairly progressive tax at that time. The more land you owned, the more crops or cattle you were likely to be able to raise, the more money you were likely to make. Therefore, if we taxed your property we, in fact, were taxing your income because almost everyone made their living off the land. That is far and away not the case today. And what we are seeing is a scissors effect that was first seen to my knowledge in California. In my area, we are seeing rapid inflation of home value and a same or decrease in income. This has resulted in a number of my constituents telling me, in tears, on their front porch, I am making choices between taking my hypertension medicine and paying my property taxes. If I'm broke I can stay out of the store and I don't have to pay sales tax. If I'm not making money I don't have to pay income tax, but what can I do? I have to live somewhere. Property tax traps people. LB453 directly responds to their dilemma and we, the Legislature, get clear credit for making good, sound, fiscal decisions. If LB453 goes through it's because we were prudent and conservative in our expenditures. We should get that credit, because the voters need to know who has been a good steward of their money and who, perhaps, is spending too much. One of the great problems of the other proposed methods of property tax relief is they obscure this fact. If we stuff money into a school fund in rural

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Nebraska that has not been a good steward, we, in fact, cover up those mistakes and those decisions. That is not a good way to find good responsible government. It is much better to give the money directly back to the voter and then tell the local government authorities make your case to get it back out of their pocket. Finally, LB453 solves an enormous problem. The American dream has long been defined as the ownership of a home. One of the largest obstacles to owning a home in this state today is our property taxes. Now ownership of a home is not only an achievement on an economic side, it's a fundamental social achievement. People change when they own a home. Instead of becoming a transient in a neighborhood, they now own a stake. They become part of the ownership society. Somebody goes down the street throwing pop bottles and beer bottles out of a car, which can happen in my neighborhoods, if you have renters it's not much of a problem, but if they own the home they are offended. That degrades their home, their house, their neighborhood. Anything we can do to encourage ownership society, to encourage home ownership, helps us on a social level. But beyond that it is absolutely the best economic development tool we can have, whether it is savings for the home, whether it is home improvements, whether it is enhancing property tax values. Home ownership is the fundamental bedrock of a successful society. LB453 recognizes that. And finally, LB453 gives direct relief to the people who have carried the heaviest burden--homeowners and property taxpayers. There are going to be years when we can't give them that relief because the economy will turn down. I have no problem going back to my voters and saying the economy turned down, tax receipts are off. We cannot give you the help we could last year. And we do that looking them in the eye and just explaining it to them. In the meantime, we do not have to cut fundamental services. We do not have to pick which community college gets closed. We do not have to pick among west versus east, city versus farm. Those are and should be local decisions and LB453 recognizes that. It is inexpensive to administer. It's flexible. It empowers us to address the inequalities of property tax bases without being locked into a long-term choice that may not be viable in two years. Thank you for your attention. [LB453]

SENATOR JANSSEN: Any questions? Senator Raikes. [LB453]

SENATOR RAIKES: Thank you, Senator White. Okay, a couple things. One, this could be really described as income tax relief for someone who owns a home. [LB453]

SENATOR WHITE: What I would tell you is--we've had this debate--is that income tax relief as tax shifting, what I would tell you I think it is, it's putting people's money back right in their pocket. So you can call it whatever you want, but the money goes right back into the taxpayer's pocket. And I don't think they care what we call it if they get the money. [LB453]

SENATOR RAIKES: Okay. Let me ask you another question. I think, was it last year, Ray, or the year before we did earned income tax credit as a part of our state return,

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and actually we did it at a fairly low level. I think... [LB453]

SENATOR CORNETT: Modest. [LB453]

SENATOR RAIKES: Modest. Would an alternative to this--an effective alternative is what I'm asking you--be to increase, if it was 20 percent of the federal, I've forgotten what it is--increase that earned income tax credit from 20 percent to 40 percent versus doing something like this? [LB453]

SENATOR WHITE: Certainly it would benefit people by returning some money, but it will not benefit the people that are carrying the heaviest burden the most. The problem with the property tax system is the homeowner, the person who reaches for that situation, to become part of the American dream, the are by far and away carrying the heaviest burden. Earned income tax relief would provide relief for homeowners and property owners and non-property owners. I don't have a problem with that, except that it has been the property tax owners who have been funding the education overwhelmingly, funding the fire, funding the police, funding those kind of decisions. If I have a choice, I believe the person who first deserves relief--not that all classes don't deserve it, they do--but the first people we should treat are the people who have been carrying the heaviest burden. This is directed at them. So, no, I would not say that that would be a substitute. Not that it's not a good idea. Not that it wouldn't be nice. It just doesn't target it to the people who have been paying a disproportionate share of taxes. [LB453]

SENATOR RAIKES: Okay. Thank you. [LB453]

SENATOR JANSSEN: Any other questions? Senator Langemeier? Oh, okay. [LB453]

SENATOR CORNETT: Senator White, I signed on to the bill. I have been receiving a number of e-mails and I'm having a difficult time answering them. The majority of them are from the elderly that are still paying income tax, the young who are living in apartments... [LB453]

SENATOR WHITE: Right. [LB453]

SENATOR CORNETT: ...the people that are trying to purchase homes and need income tax relief... [LB453]

SENATOR WHITE: Right. [LB453]

SENATOR CORNETT: ...and/or earned income tax credits. I understand that this is targeted to the people that have been carrying the heaviest portion of the burden, but they have been carrying the heaviest portion of the burden because they have the

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income. And a lot of our property tax...I don't necessarily agree with property tax relief. I think that's more of a shift. But how do I tell the people that most need relief... [LB453]

SENATOR WHITE: Well, let me take them... [LB453]

SENATOR CORNETT: ...that we're excluding them this year in this? [LB453]

SENATOR WHITE: Let me take them by different categories. First of all, I would not say that people who own homes necessarily have the most income. [LB453]

SENATOR CORNETT: No, and I would agree with that. [LB453]

SENATOR WHITE: The elderly that are on fixed income social security. Homes in my district and yours as well have doubled in value in the last six to eight years. [LB453]

SENATOR CORNETT: Trust me. I know that one. [LB453]

SENATOR WHITE: Their income has not at all increased. So what we are seeing are many people who, in fact, are paying property taxes that they can't afford because the homes have inflated when their salaries haven't. So this does not pick, you know, the haves over the have nots, just to the contrary. Second, to the renters and the young people who want to buy a home, I would tell them two things. First of all, if you are struggling to save money to buy a home talk to a banker. This will make it much, much easier for you to buy a home much sooner. Many, and for example, Senator Ashford can tell you, right now the biggest barrier to home ownership in Nebraska for lower income people or people that are trying to save given the federal programs, the insured mortgages, those kind of things, is actually property taxes. This bill will help get them out of the apartment and the ability to own a home sooner than anything else we have looked at. Finally, for a renter who has no ambitions to own a home I would say yes, this should give you tax relief, but not all bills can do all things at once. This bill is directed to property tax. And I would tell the renter, in all humility, you actually are seeing some form of property tax relief. For a business person who owns rental property, the property tax is a deduction. That comes off of their income tax state level before they pay any taxes. Those savings in a competitive marketplace do come back to the renter. Our rents are cheaper because property taxes are recognized as a deduction in a business transaction. Is it direct to them? No, but neither do they directly pay property tax. So they are already acknowledged in it. This bill will help them get into a home sooner. We do need to do other things, but this bill addresses the overwhelming problem for those who have been carrying the overwhelming load. [LB453]

SENATOR CORNETT: One further question. When you say...it maxes out at \$500, am I correct? [LB453]

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SENATOR WHITE: Yes. [LB453]

SENATOR CORNETT: Five hundred dollars breaks down to roughly about \$35 a month, am I correct? [LB453]

SENATOR WHITE: Forty dollars a month. [LB453]

SENATOR CORNETT: Forty, okay. Do you really believe that \$40 a month is enough to see people in homes sooner? [LB453]

SENATOR WHITE: Yes, as a matter of fact, bankers have come up independently and told me that. And again, Brad Ashford would tell you other people who have experts on lower income housing will say \$40 a month is a huge hurdle that's very helpful in helping people on tight budgets own homes more quickly. [LB453]

SENATOR CORNETT: Thank you. [LB453]

SENATOR JANSSEN: Any other questions? Seeing none, thank you, Senator. [LB453]

SENATOR WHITE: Thank you. [LB453]

SENATOR JANSSEN: We'll take proponents first. [LB453]

CHUCK HASSEBROOK: Hi. Thanks for having me. My name's Chuck Hassebrook, H-a-s-s-e-b-r-o-o-k. I'm executive director of the Center for Rural Affairs in Lyons, Nebraska. You know, I was thinking I came to my first hearing on property tax relief in this building 30 years ago and over the years I've come to two conclusions. One is that if we're going to be successful in really accomplishing something in this field we have to figure out a way to get modest income homeowners working with family farmers and ranchers, and kind of working together. And the other is that if we're going to be able to afford to provide the level of tax relief that's significant then we have to find ways to focus the greatest relief on the people with the greatest need. I support this bill with modification. The modification to address the first criteria I talked about, getting homeowners and family farmers together. The reason I find this bill encouraging and I'm supporting it is because it addresses the second of these principles and it does it well, and that is getting the greatest relief to the people with the greatest need. And I say that for a couple reasons. And the problem is, frankly, if we try to provide a property tax cut on every item of property in this state we don't get very far before we break the bank. This bill has a better approach in that regard, I think, with respect to homeowners. It focuses this on homeowners rather than landlords, and while it gives every homeowner relief, \$500 means a lot more to an owner of a modest home than it does to someone who owns a mansion. And I think it is significant from a social standpoint, because one of the things that I think public policy should do is encourage widespread ownership.

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And I think that's one of the things this bill does is by lowering barriers and increasing opportunity for modest income folks to own their own homes. Now the second point has to do with family farmers and ranchers. As written, I don't think this bill provides sufficient relief to family farmers and ranchers. If you look at the property taxes farmers and ranchers pay in relation to their income, it's very high. I mean, it's very substantial. And I think about my home district. This bill, as it's written, would eliminate...our home values are quite low in my hometown, Alliance, the town where I live. This bill would eliminate over half of my property taxes. It wouldn't do a lot. Most of the property taxes in our district are paid by farmers and it wouldn't do a lot for them. So what I would suggest to correct that is one of a couple of things. Senator Dubas has a bill you're going to talk about next, I think, for a circuit breaker tax relief on agricultural property. One might add that to the mix. Or the other thing would be to provide an additional thousand dollars, \$1,000 or \$1,500, on owner-operated farm and ranch lands. So again, it's targeted to the owner-operator, and again, you know, cap that. If it's \$1,500 that's going to mean a whole lot more to that beginning farmer or maybe the small farmer who owns a quarter section and rents three or four, than it is to Ted Turner or somebody that's trying to farm the whole county. And again, it's a public policy that helps support widespread ownership, because it provides a break to help that beginning farmer buy his or her first piece of ground, provides a break to help that smaller farmer who's struggling to survive stay out there. So I think it's a good approach with some modification. Thank you. [LB453]

SENATOR JANSSEN: Any questions? Seeing none, thank you, Chuck. Next proponent. Any more proponents? Anyone in favor of the bill? Seeing none, we'll go to opponents. Any opponents? Not a one? Anyone in a neutral capacity? [LB453]

DOUG EWALD: (Exhibit 5) Senator Janssen, members of the Revenue Committee, my name is Doug Ewald, E-w-a-l-d, and I'm the State Tax Commissioner. I appear before you today on behalf of the Department of Revenue in a neutral capacity with respect to LB453. What's being passed out now is a exhibit that I shared with Senator White this morning. I greatly appreciate his time this morning to walk through it. And what it is it's a list of, what I'll call, challenges with respect to LB453. They're not insurmountable by any stretch, but they are challenges I think that are important to get on the record here. As we've heard already, this is a refundable income tax credit and we've made the assumption at the Department of Revenue that you would want us to validate refunds prior to payment. This is a situation where we wouldn't receive any information from the feds to audit, so we would have to perform the audit ourselves. And it's probably better to audit it up front, as opposed to pay the money out from that standpoint. So that creates a small issue for us with respect to how we validate that the particular taxpayer pay taxes. So what we're looking for here is a database. We would assume we would need a database and we also assume that the people who are 100 percent homestead claimants would not receive the credit. In the actual table here, you can see I've got challenges. There's two different groups of challenges--agency implementation, that's

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the Department of Revenue, and then some taxpayer challenges that we kind of viewed. You also see a difficulty level--high, medium, and low as well as some comments. So with respect to agency implementation, the first one there is form development. That's actually very low difficulty issue. We're able to put forms together fairly efficiently these days and the big thing here is we would need to somehow capture the adequate data to allow for electronic filing here. So we need some sort of parcel ID or something like that to validate this. Secondly, I get into the point of the validation database. This is probably the most difficult one. A database currently does not exist. We would need to go through an RFP process to request funds to do that. We could definitely get there. Obviously, we passed this or some sort of this package this year. We need something really online by January 2008 is what we're looking at there. So parcel ID's with respect to validation they vary from county to county. However, I went in talking to Senator White this morning. Another issue we have here is we're working on an amendment, Senator, to how we actually would validate. What we would propose here is probably pushing back on the counties to have the counties submit a taxpayer validation number, a PIN number of sorts, to the taxpayer that okay, this is your number you put on your tax form or whether it's hard copy or electronically. And then, in turn, you would send that database information to us at the state which we would use as a matching mechanism if you will. So we're working on that right now. We talked about that this morning. We want to make sure we get the appropriate verbiage in that amendment before we get it to you, Senator. The reason that's so important, I talk about manual validation. Today, we have about one-half or 400,000 of our taxpayers file electronically. And this database would enable us to continue that pace and not take a step backwards. We don't want to step backwards and reduce the amount of electronic filing that we have today. That's very important. We've made great progress and strides in that area. So if we had to go to a manual validation process that could be quite slow and fairly expensive. The last item there is refundable credits, by nature, kind of promote fraud. This is a low level. I spoke with Senator White this morning. When they created the income tax code, they promoted fraud, basically. You know, there's going to be people out there that will, you know, do duplicate filings, try to get away with the credit more than once. It puts us in a watchdog situation, but it is an issue for us. So moving down the list, with respect to taxpayers, and these are items that we kind of brainstormed on. Another form to file. This could add--and I say could--add a complexity and possible additional taxpayer costs. It's really an education issue. We talked here previous about the earned income credit that was passed last year. We're seeing returns come in this year based on last year, the first ones, the initial returns that came in a significant amount of errors by tax preparers. You know, professionals that were hired as well as individuals doing it on their own. So we have published guidelines out there and additional information on our website, and have contacted taxpayers to kind of inform them how to fix what they're doing on a go forward basis, because it puts us in a situation where all of a sudden we're sending correspondence back and forth and that's not very efficient for us. Eligibility issues, we also spoke about this this morning. You know, what happens in divorce, married filing separately, joint ownership. In talking

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with Senator White this morning, in a divorce situation obviously we'd probably rely on a court decree, a court order, to say okay, you get this, you know, as part of the settlement. Married filing separately that's another issue as well as joint ownership, but hopefully with a database that you could match something up with it would be sent to the primary homeowner who paid the tax and that would give us something to match with. Current non-filers must file. This is probably the situation where we have approximately 31,000 people and 100 percent homestead exemption today where they would be required...I'm sorry. I need to take that back. These are the people that don't file that they would have to file to get this credit. This is not the homesteaders, excuse me. So this is just really an education issue. People that might be low income, not required to file a federal income tax return or state tax return because they're below certain income levels, but they're still paying some property tax. They would now be required to file a form here. The next two items kind of go together. This is income to homesteaders and to itemizers, and what I'll elude to here is if you currently file a tax return and you get a refund from the state and you just happen to itemize, you get what we call a 1099G from the state, and that is income to you in the next year because you were able to get a deduction for it last year. So this will be an income to itemizers in the subsequent year, and it will also impact, or has the ability to impact future homestead eligibility. That's going to be an individual by individual basis here is all it amounts to. With respect to tax protestors, it'll be interesting to see what happens there. That's really a low difficulty level. We have a fair number of those across the state who refuse to pay income tax, but will see this and say well, I pay property tax. I should get that back. We'll see what happens. Maybe it will force them to file and be more in compliance, I don't know. We'll see what happens anyway. So that's the extent of my comments. Like I said, we'll work on that amendment. I've got a draft of it here. I really need Cathy Lang to take a look at it and see if it's something that's viable based on her knowledge, and see what we can work out there anyway. With that, I'd entertain questions. [LB453]

SENATOR JANSSEN: Any questions? Abbie? [LB453]

SENATOR CORNETT: Yes, I was reading through the fiscal note and at the bottom it said the department would have to rely upon the counties to supply data in a usable format. Are we, if we implement this, pushing an expense to the counties to give this to you in a usable format? Would it be different than what they are currently doing? And do you have any idea, if it is different, what the cost to the counties would be in regards to this? [LB453]

DOUG EWALD: I believe it would be different and in addition to what they're doing today. And the reason I say that is because if we're going to rely on a parcel number, parcel numbers are not consistent from county to county today. One Lancaster is 17 digits, Douglas County might be 15, some other county is something in between. And with that, what you're talking about there, Senator, kind of gets to the heart of our amendment to where the Tax Commissioner would give them the format of that PIN.

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For example, we'd probably start out with the two digits of the county, 01-93. The second four digits would be the particular tax year--2006, 2007. And then probably a six-digit code to allow for enough people in any one county that would be assigned to that particular taxpayer. Now they could continue to use that PIN number from year to year. The only thing that would change would be maybe the year associated with that, that second four numbers. Something along those lines. It would, obviously, it pushes this issue out to the county level for us to validate. And I don't have any idea what it would cost them to do that compared to what they're doing today. [LB453]

SENATOR CORNETT: So that's somewhat of an unknown here? [LB453]

DOUG EWALD: Correct. [LB453]

SENATOR CORNETT: All right. Thank you. [LB453]

SENATOR JANSSEN: Any other questions? Ron. [LB453]

SENATOR RAIKES: Thanks, Doug. Help me think this through. The earned income tax credit, and I appreciate your comments about the ramping up or learning curve or whatever it is, people getting used to what that is and how to file it and so on. As you envision Senator White's goal here, would an increase in that earned income tax credit percentage that we allow in Nebraska, would that effectively address the goal he's seeking here? [LB453]

DOUG EWALD: I don't know if I know the answer. [LB453]

SENATOR RAIKES: It's a refundable credit and it's for people who have income. It... [LB453]

DOUG EWALD: I'm not... [LB453]

SENATOR RAIKES: So it wouldn't just be homeowners. [LB453]

DOUG EWALD: It wouldn't just be homeowners, that's correct. I don't know what the specific levels of income where that applies to are off the top of my head. So if you... [LB453]

SENATOR RAIKES: It's lower income. [LB453]

DOUG EWALD: It's lower income, yes. I do know that. I don't know what the thresholds are though. [LB453]

SENATOR RAIKES: Okay. [LB453]

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DOUG EWALD: But... [LB453]

SENATOR RAIKES: One other question I would direct at you that, and again, I think Senator White is not making a claim that this is property tax relief, but if that's the way it were interpreted you can envision the situation where my property tax bill doesn't go down at all and I have a balance due on my income tax, which is greater than \$500. So I'm paying income tax and property tax and where's my relief? [LB453]

DOUG EWALD: Well, I don't think Senator White claims this to be...this is a hybrid, I guess, if you will from that standpoint. And if, in that situation, you're correct, you would not see your property tax bill change in what you pay. And if because you're withholding is less, you could change your withholding and you could end up in a situation where, yeah, I've paid my full property taxes the \$500 don't offset. I maybe didn't have enough withheld, and you could still have a tax (inaudible). I mean anybody could be in that situation obviously, depending on what you chose to do personally with respect to your income tax withholding or estimated tax payments, if you will. [LB453]

SENATOR RAIKES: Thank you. [LB453]

SENATOR JANSSEN: Any other questions? Seeing none, thank you. [LB453]

DOUG EWALD: Thank you. [LB453]

SENATOR JANSSEN: Neutral. [LB453]

LARRY DIX: Senator Janssen, members of the committee, for the record, my name is Larry Dix, spelled D-i-x. I'm executive director of the Nebraska Association of County Officials and appear before you today in a neutral capacity, appearing really for one purpose. As we started the discussion down the road of the interface in the database, certainly Senator White and I have had that conversation before. I would tell you on the manual filings from an income tax point of view, certainly there's no problem to provide a paid receipt or the county could print off another paid receipt that could be attached to the income tax filings. So if someone were filing manually that's certainly not the problem. The issue that the Tax Commissioner brought up about the electronic database, I certainly believe that would be a challenge. When I look at it and understand the way I do the computer side of it, it's not insurmountable. Each parcel that we have in our database has a unique identifier, county by county, so it would be only unique to that county. Now to make that parcel ID unique statewide would be a matter of inserting a two-digit number in front of that which would identify each of the 93 counties. And in doing so that would force each one of those parcel numbers to be a unique identifier. The one thing that we will run into is the situation in Lancaster County that has a 17-digit parcel number compared to a number of counties that have a 9-digit parcel number. We

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may have to do what I would refer to as some padding or some prefixing of that. As far as the year, of course, that would be generated each time that if the County Treasurer were to generate a report to the Tax Commissioner the year would be inserted into that, because at a date certain, my assumption would be that the request would go out and the county would generate the report for the 2008 income paid records for that year. The one challenge that comes up that I would ask the committee to look at is if I did not pay my taxes in the year 2008 and if this credit was available in 2009, and then I had an unpaid tax bill that of course we would have to make provisions for. And that would be handled through the Treasurers because they would only be submitting records that were paid. But I think you have the potential of somebody two years down the road saying, oh, now I did pay my back taxes. So do I get that back year credit, but regardless of that I think the interface of the two files, if we're only looking at tying a parcel number with proof of payment, amount paid, and date paid, a lot of that information is currently in the county. So we currently provide software to a majority of those counties and so we know it would be there. To answer Senator Cornett's question, yes there would be some programming costs. I do not know what those would be, but if we are looking at this from an export of data and it would occur once a year, which my belief is it would, prior to we would have to establish a date that real estate would have to be paid. The cost, I would say, would be somewhat minimal, because it would be a one time report that we would run to generate that information. So with that, I'd certainly be happy to answer any questions. Conceivably, I can see it. [LB453]

SENATOR JANSSEN: Questions? Don't see any, Larry. [LB453]

LARRY DIX: Okay, thank you. [LB453]

SENATOR JANSSEN: Next neutral. [LB453]

PETE McClymont: Senator Janssen, members of the Revenue Committee, I'm Pete McClymont, P-e-t-e M-c-c-l-y-m-o-n-t. I am vice president of legislative affairs for Nebraska Cattlemen and property tax relief to Nebraska Cattlemen members is, in our ten commandments, number one. So for me to be here, we will always be in support of property tax relief. So with that, to LB453 and Senator White we are very appreciative of this bill. The biggest concern in my neutral testimony here today is the fact that the vast majority of our membership is cow-calf producers. Over 60 percent of our members are cow-calf producers so if we were to equate property tax in a cow-calf operation back to the cow based on the property tax the landowner has, I think the average, and we did a completely unscientific survey with our membership, and that number is about \$48 a head. And obviously depending on your management practices and obviously, now currently the effects of the drought that we've been experiencing, that number can be upwards of \$60. We had six ethanol meetings to educate our members two weeks ago, and we had a member tell us that he and his wife's property tax on a per cow basis was \$80 a head. So with that in mind, is \$500 a good start? Undeniably, but on the flip side,

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to give relief to these people that are in a fix cost operation is it help? Sure, but obviously we, as our association and our cow-calf members, would like to see more. So with that, I appreciate the opportunity to testify here in Senator White's bill, LB453. And with that I'd be happy to answer any questions, Senator Janssen. [LB453]

SENATOR JANSSEN: Any questions? Seeing none, thank you. [LB453]

PETE McClymont: Thank you. [LB453]

SENATOR JANSSEN: Anyone else in a neutral capacity? Seeing none, Senator White to close. [LB453]

SENATOR WHITE: Thank you, Mr. Chairman, fellow senators. What this bill will do is it will give relief. Senator Raikes, I would suggest to you writing your check to the state government for \$500 less is substantial relief, or perhaps you have a higher threshold of pain than I do. But in my own event, that's relief. And it's real and it's immediate. This bill, immediately, and actually, and promptly returns money to the taxpayer. It addresses their major concern, but more importantly if we do adopt it it puts the property taxpayer on the same basis, hopefully, every biennium that is occupied by the university system, by aid to schools, by the courts, by the prison system. That is they have a place at the budgetary table. There is a line item that we should look at and we should evaluate how we are doing. If we are doing well through income tax and sales tax we can afford to give them more money. I would that we could give them more money and I can see a day, if we're successful at turning our economy more towards an income tax-based economy, that the amount of relief will substantially exceed what most homeowners pay in property taxes. That we will see a day when the amount that we can give to an agricultural producer becomes absolutely significant, but in the years we cannot, it does not disrupt existing funding. And that, to me, is essential. Predictability of government is very important, particularly when it comes to educating our kids, keeping police on our streets. This bill provides flexibility, it is progressive, it provides economic incentives for home ownership, it gives clear rewards to the Unicameral when we do our job well, and it keeps responsibility for fiscal restraint on the local governments who actually levy the property taxes. I thank you so much for your patience and consideration and I ask that you advance this bill to the full Unicameral for debate. Thank you. [LB453]

SENATOR JANSSEN: Thanks, Senator White. That ends the hearing on LB453. Senator Dubas, I believe, is here--LB684. Senator, welcome to the Committee on Revenue. [LB684]

SENATOR DUBAS: (Exhibit 6) Thank you very much, Senator Janssen. I thank you members of the committee. My name is Annette Dubas, A-n-n-e-t-t-e D-u-b-a-s, and I am the state Senator from District 34. When I came down here as the freshman senator, those first 10 days of the session I had no problems figuring out what it was I

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wanted to address. The challenges I met was how do I address those problems. And so the bill that I dropped, LB684, was an intentionally vague bill, because the problem that I wanted to address was property taxes. I just wasn't quite sure how to make those mechanisms work and how to put that idea into place. So I am going to propose an amendment to LB684 which essentially guts that whole bill that I proposed and replaces that language. We know that property taxes are regressive and that they require low income taxpayers to pay more of their income in tax than wealthier taxpayers. Owning property is not an indication that you have the ability to pay those taxes. Property taxes are based on valuations. So therefore, taxes are a disconnect from the ability to pay. January 2003 the Institute on Taxation and Economic Property found that nationwide the poorest 20 percent of Americans paid 3 percent of their income in property taxes, 2.4 percent of the income for the middle income taxpayer, and .8 percent for the wealthiest 1 percent of Americans. So what about Nebraska? We know that there are great disparities that exist in our state. Nebraska is ranked number 18 in the United States as far as property tax burden, and I think if you narrow that down to strictly agricultural property taxpayers that ranking would go even higher. One of the problems we face as a state is that we are a low population state, but we still demand all the same services that any other state with higher populations have. According to research that was performed for the Center for Rural Affairs, data shows that the heaviest property tax burden occurs in rural, agriculturally-dependent counties and counties with low per capita incomes. Nebraska is home to five of the nation's 15 lowest counties, and all the lowest income counties in the state are both rural and agriculturally-dependent. So it is clear that the combination of property tax dependence for many public institutions and low rural incomes have resulted in tremendous tax burdens for many rural residents, particularly the lowest income rural citizens in ag-dependent counties. The Syracuse study which was done some years back did present a lot of very pertinent data, and it found that property tax was the least progressive of our three major tax bases. The study recommended a circuit breaker, and that's what I'm here to talk to you about today. My question continually came back to when I was thinking about property taxes was how can I help my constituents. So we can either do across the board tax cuts for taxpayers on all income levels or we can try this idea of a circuit breaker. This amendment introduces the concept of direct property tax relief in the form of what is known as a property tax circuit breaker. The purpose of a circuit breaker is to target property tax relief to the most overburdened taxpayers if we determine that burden according to their ability to pay. The percentages are presented on a sliding scale. The credit determined by the amount of property taxes in excess of a percentage of income. The percentages that I have proposed in this amendment range from 4-18 percent. As income increases, the bill presumes that the taxpayer is capable of shouldering a greater property tax burden, relative to their income. This amendment currently caps the tax credit at \$4,000; however, I do submit to you that each number offered in this amendment could be worked out with any numbers that you choose. It is also intended that depreciation allowances, when calculating the income, should be added and not deducted. Just like an electrical circuit breaker kicks in about the time that the surge of

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electricity will short out your lights, this tax circuit breaker is designed in very much the same way. Taxpayers earning below a certain income level would be given some amount of property tax when their taxes exceed a certain percentage of their income. The bill assumes that as your income decreases your property tax burden decreases. To date, 35 states have implemented this idea for many different populations. So it's a very versatile idea. It's been used for elderly, for homeowners, for renters, and for low income individuals. But to my knowledge, this concept has never been directly targeted at ag land, but it does appear that this concept is adaptable to address multiple issues. Senator Dierks introduced this exact same legislation in 2000. So it's pretty obvious that everything old is new again. The circuit breaker idea provides the least disruption to local government budgeting. It's very similar to the homestead exemption program, but it operates after the fact and does not affect tax relief through changes in local government funding or services. And the advantages of the circuit breaker are that it's a form of property tax relief that is explicitly designed to reduce property tax load on those low income taxpayers, and it's targeted to a select income group. So as I said, this is an issue that I wanted to bring to the Revenue Committee. I wanted it to be a part of the discussion and I'm definitely not going to be offended at changes that you would see to make. I just want to make sure that especially rural landowners are recognized as carrying a heavy burden in our state. They're asking for relief and I'm making an attempt to provide that relief. So I'd be happy to try to entertain any questions you'd like to ask. [LB684]

SENATOR JANSSEN: Any questions? Senator Langemeier. [LB684]

SENATOR LANGEMEIER: Thank you, Chairman Janssen and thank you, Senator Dubas, for bringing this and I also thank you for giving us some heads up on this earlier in the day, otherwise this is kind of a drastic change for the bill. As you introduced the bill, I understand the first few days in the bill introduction you don't know what everyone else is going to drop, and it's kind of we better throw something in because somebody else might not. What do you think, in the ranking of priorities, if we took every bill for face value and we have a number of tax proposals out there, where do you, and I'm not going to hold you to this, but where would you play yours into that? Let's say there's eight others out there. Would you say yours is the number one, or number two, or number four, or number eight? Where would you place yours within what you've seen now that you've had an opportunity to see? [LB684]

SENATOR DUBAS: It's very obvious that property tax relief, in general, across the board, is a high priority for the body. And so my intention in putting this out is really just to put it out for discussion and to make sure that the rural issues are a part of..I fully expect a combination package to come out that's going to try to address property taxes on a broad spectrum, but you know, being able to do that. Is that easy to do? I'm not sure, but I really would like to see this to be a part of the mix, not the solution. [LB684]

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SENATOR LANGEMEIER: That's what I was (inaudible). Thank you. [LB684]

SENATOR JANSSEN: Ron. [LB684]

SENATOR RAIKES: Senator, property tax relief, in general, this is sort of a general...how will we know when we're there? [LB684]

SENATOR DUBAS: That's one of the very same questions I asked myself. And in trying to craft this bill and trying to address the issues, I'm 50 years old and for as long as I can remember we've been talking about property taxes. And what does real property tax relief mean? And can we really do it? How do we know when we're there? Those are all the very same questions that I've asked myself and I have asked others, too. I guess what we're seeing especially in rural areas where there isn't the discretionary income behind the ability to pay property taxes like there is maybe in other...if you have a regular paying job. And so just trying to find a way to address ability to pay with what is expected and, yes, property taxes are a local issue and how do we make people more responsible and accountable at the local issue. I guess I came up with more questions than I did answers and I wish I could give you an answer to your question. It's probably a different answer for every person that you'd ask, but I think we can agree that property taxes are becoming burdensome, especially for rural areas. How do we address that in a meaningful, sustainable way and one that will we really be able to measure it? I just can't answer that question. [LB684]

SENATOR RAIKES: Thanks. [LB684]

SENATOR JANSSEN: Any other questions? Seeing none. [LB684]

SENATOR DUBAS: Thank you. [LB684]

SENATOR JANSSEN: Thank you. Proponents, please. Go right ahead. [LB684]

CHUCK HASSEBROOK: Hi. I'm Chuck Hasebrook, H-a-s-s-e-b-r-o-o-k, executive director of the Center for Rural Affairs. I don't claim to know the precise details of the bill as amended, but as I said before I think there are two principles to any effective approach to property tax relief or what I think we need to do to really get significant relief to the people that need it and that is you address both modest income homeowners and family farmers and ranchers, and you provide the greatest relief to the people who need it most. And I think that Senator Dubas' bill is, like Senator White's bill, very good at getting the most relief to the people who need it most. And I think it will help make more possible for young people to get a start in farming by giving the person buying their first piece of ground, and with a modest income a break on property taxes. So I think it's good policy from that standpoint, making it possible for more people to be owners and owner-operators. And I think if you combine it with an approach like Senator White has,

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you can have a package that addresses the needs of the modest income homeowner and the small and midsize family farm and ranch, that it gives each meaningful relief, but targets it so that with the money we've got, which is limited, you can do something significant for people who really need it. Thank you. [LB684]

SENATOR JANSSEN: Questions? Ron. [LB684]

SENATOR RAIKES: Chuck, I think we've had this argument before, but... [LB684]

CHUCK HASSEBROOK: I thought it was a discussion. [LB684]

SENATOR RAIKES: Oh, okay. I thought I won it, though. Can you win a discussion? (Laughter) [LB684]

CHUCK HASSEBROOK: No...no. [LB684]

SENATOR RAIKES: Oh, okay. The issue of property tax relief and assisting beginning farmers... [LB684]

CHUCK HASSEBROOK: Um-hum. [LB684]

SENATOR RAIKES: ...my argument is that if, say, today we cut ag land property taxes in half, that what you would do is immediately capitalize that into the price of farmland so that, again, old guys like me that own farmland would benefit. We'd get a windfall and a new farmer or someone who wants to get in farming, simply has a higher hill to climb in order to buy land to get in the business. [LB684]

CHUCK HASSEBROOK: I agree with that actually, and that's why I favor this kind of approach. Anytime you say we're going to increase farm payments or reduce property taxes for X amount for every acre you had, you're right. It all gets capitalized into the land prices in my judgment. And at the end of the day, it only benefits if you owned it previously. But when you start targeting it and really focusing it on a more limited number of taxpayers and particularly in this case, I mean, frankly, when it comes to farmland prices the prices are not being set by beginning farmers buying land or, you know, by the smaller operations buying land. There's a relatively small number of large, aggressively expanding operations that tend to drive the land market. They're not going to benefit a lot from this approach, because it's targeted. The people who own more modest amounts of land and have more modest incomes. So I don't think it does get bid in the land values. That's one of the beauties of it. [LB684]

SENATOR RAIKES: If, and we agree on this, if that's the case wouldn't the following sort of a program make more sense. We increase the capital gains tax on ag land sales, so that guys like me that are cashing in on their windfall, in effect, pay more tax and

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then we use that kitty of money to buy down the property tax payments for beginning farmers. [LB684]

CHUCK HASSEBROOK: Well, the capital gains tax is probably not the way to do it, because people typically just avoid the capital gains tax by leaving it in their estate and not selling it, and then it just gets passed on tax-free. You know, yeah. Thomas Jefferson was a great advocate of a graduated land tax, you know. We've got a graduated income tax. He said let's have a graduated land tax. If you want to really maintain widespread ownership of land that would be the way to do it, have a graduated land tax, which is sort of what you're getting at. Not that I'm saying you would support that. I'd like to say it. [LB684]

SENATOR JANSSEN: Any other questions? Seeing none, thank you. [LB684]

CHUCK HASSEBROOK: You bet. Thank you. [LB684]

SENATOR JANSSEN: Next proponent. Anymore proponents? Any opponents? Anyone in a neutral capacity? [LB684]

PETE McClymont: Senator Janssen, members of the Revenue Committee, I'm Pete McClymont, P-e-t-e M-c-c-l-y-m-o-n-t, vice president of legislative affairs. Just real quickly, we appreciate Senator Dubas bringing this bill forward, and much like Senator White's bill it gets to the core of what we believe in is lower property taxes and so we appreciate the Senator sought us out and got us the amendment today. So our leadership is out of town and we would like to look this over and continue to work with the Senator, and weigh in more on this issue. So with that, I appreciate your time. I would take any questions, Senator. [LB684]

SENATOR JANSSEN: Any questions? [LB684]

PETE McClymont: Thanks. [LB684]

SENATOR JANSSEN: Thank you. Anyone else in a neutral capacity? Seeing none, Senator to close. [LB684]

SENATOR DUBAS: Thank you again, Senator Janssen and members of the Revenue Committee. It's very clear that for every solution we come up with we have at least three questions if not more. And I guess that was, again, the whole purpose of my bill is to generate discussion, to raise the level of awareness. How do we know when we get there? That's a very good question and probably we'll know when we don't have to pay any taxes at all, then everybody will be happy. But that's totally out of the realm of possibility. But again, I wanted this to be a part of the dialogue. I want it to be part of the discussion. How do we craft tax policy across the board that's sustainable, that provides

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relief, especially to those who are most unable to pay the taxes? How do we move to a more progressive type of tax policy, rather than, especially at the local level, having to rely so much on a regressive tax? Do we really want tax relief for those who are most unfairly burdened? How do we provide the least amount of disruption to our local services? What types of taxes can we put in place? We do need to stop shuffling the blame down to the local level. All governments are trying very much to provide services in an efficient and effective manner. And so I don't think we should be playing the blame game. We should be playing the game of how do we come up with constructive, positive tax policy that will help build Nebraska across the state, urban as well as rural? And we can't do that until we put all the ideas out on the table and generate the discussion and generate the debate. We basically have been doing tax shifts. The state, across the years when they've had to deal with budget situations and we've cut state aid to education and local communities, community colleges, NRD's. That has placed more of a burden on our property taxes. So we've been doing a lot of the shell game where we're shifting things around. And so those are the types of things that we need to look at. I refer to this bill as a circuit breaker and it's very important--I don't want to shut the lights off in rural Nebraska. And the burden that property taxes are placing on our rural neighbors are creating that very situation. We're struggling to keep our communities going, we're struggling to keep people on the farm, and taxes definitely play a part in that picture. So I guess, again, I just want this to be a part of the discussion. I want us to look at ways that we can address this situation so that 50 years from now, I don't have a granddaughter or a grandson sitting in this very same chair saying what are we going to do about property taxes. You know, let's find ways to come up with tax policy that will grow Nebraska and help us find out the answer to Senator Raikes' question, when do we get there. Thank you very much. [LB684]

SENATOR JANSSEN: Questions? Thank you for being here. That ends the hearing on LB684. Senator Avery, I believe, is here--LB510 and LB511. Welcome, Senator. [LB510]

SENATOR AVERY: (Exhibits 7, 8, and 9) Good afternoon, sir. Mr. Chair and members of the committee, I just got a glass of water. Reminded me of a story once where a politician was getting up to speak and he asked for a glass of water and someone rose to a point of order says, Mr. Speaker, I would like to remind this person that you cannot run a windmill on water. So I'm going to keep this brief, as brief as I can. It's a complex subject, but I have a comprehensive package here in LB510. It contains both tax relief and a proposal for investing in Nebraska's future. The tax component of the bill provides tax relief in two areas--ownership of agricultural and horticultural land, and private home ownership. First ag and horticultural lands would be taxed at 65 percent of their value instead of the current rate of 75 percent. This would provide, I think, some needed tax relief for Nebraska farmers who arguably pay a disproportionate share of property taxes given their total numbers in the population. I was reading a story just the other day in the World-Herald that showed that the total farmland collections in '06 exceeded \$455

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million. That's not a small amount. Second, LB510 would provide additional tax relief for homeowners through a comprehensive homestead exemption. Here is how it would work. All homeowners would be entitled to an across the board property tax exemption. This tax exemption would be calculated at 10 percent of the average assessed value of all residential property in his or her respective county. For example, in Lancaster County the average home in 2006 was assessed at \$147,750. Under this plan, homeowners would be able to exempt \$14,750 or ten percent from the assessed value of their home for property tax purposes. Douglas County homeowners would qualify for a \$13,288 exemption based on average property value of \$132,880. Sarpy County would have an exemption of \$15,322. Panhandle residents in Box Butte County would receive an exemption of \$6,345. Calculating the exemptions in this manner has two attractive features. One, there is an element of progressivity in it. And number two, there is a form of indexation. First, let me explain how it would work with the progressive element. In Lancaster County, for example, the value of homes ranges from \$500 at the very low end. That would be for some mobile homes. To high end expensive houses valued at \$1.5 million. So in this county, all homeowners would receive the same exemption--\$14,775. So a family whose home was valued at, say, \$75,000 would receive the same exemption as the family whose home was valued at, say, \$300,000. When you calculate the exemption in this manner, you give a greater tax relief to the family with a modest home and less relief for those with expensive homes. The assumption, of course, is that families with less expensive homes are less able to shoulder the burden of property taxes than families with expensive homes since the progressive element of the bill. Now the indexation feature. All residential property values change over time, usually appreciating upward. Because the exemption is a percentage of the average of the countywide assessed value of residential properties, the exemption would move in tandem with changes in property values. So in a sense, it's indexed. One additional feature of LB510 would simplify the homestead exemption process. Property owners would not need to apply to qualify. County assessors would simply calculate the exemption countywide and credit the amount to each homeowner as an annual exemption. Those people who qualify for other exemptions would be able to pick and choose among the exemptions available to them, including this one, whichever one they chose that did the most for them. While it is true that ag land valuations were lowered from 80 percent to the current 75 percent last year with passage of LB968, I have consistently heard from voters during my door-to-door campaign, which was by the way, over 5,000 houses, reduce property taxes. I made a promise to those voters to do my best to give them some relief. Up to this point, I have only discussed the tax portion of LB510. Let me now address the part of the proposal that looks to the future with a significant investment in the future of Nebraska. I am proposing here to allocate \$50 million to establish the scholarship trust fund which would provide scholarships to students who are willing to study in particular fields, who agree to then pay back the scholarship with a time commitment in Nebraska communities where the need is greatest. Students would be required to agree to work where they are needed the most. That is where you have the greatest need for workers

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and in areas, in professions and jobs where you have the most need. And they would have to work the same number of years of the scholarship receipt. In other words, if the student receives a four year scholarship they would be required to work in a particular community of need for four years to fulfill their commitment. The scholarship fund would be managed and implemented by the Coordinating Commission for Postsecondary Education. We've talked to them about this and they are willing and eager to do this. The commission would be responsible for identifying the particular employment needs across Nebraska, administering the scholarships to qualifying students, and tracking the students compliance with their commitments. Only interest on this \$50 million that is on the principle would be used for scholarships. This is an investment in our future. We have an opportunity now that we may not see again in another decade or more. Let's take some of the surplus, I don't know what the surplus actually is, but let's take some of that surplus and let's invest it in the future. You can do this and you can do it, perhaps, you could fund it by delaying implementation of other tax cut proposals that you have on the table. I think the Governor's look back provision, or the retroactive provision of the Governor's proposal, costs about \$75 million. If you decide that you don't like anything else I'm proposing, and you have other ideas out there you like better on cutting taxes, take a look at this investment in the future and delay implementation of those tax cuts, and you will have enough money then to fund this program. Let's not squander this opportunity. We have what everybody seems to think is a substantial revenue surplus. The Governor is asking us to use all of that surplus to give income tax relief and to eliminate the estate tax. I offer you an alternative. One that provides serious property tax relief, both residential and in ag land, and one that provides a creative use of the revenue surplus for a significant investment in our future. I want to say it one more time. Voters did not complain to me about taxes on income or taxes on their estates. They did, however, complain about property taxes and they hammered me over, and over, and over about it. Now one more thing. I recognize that the bill that I have before you might violate the separate subject rule in which separate subjects cannot be contained in the same legislation. I have put these two subjects together deliberately for the purpose of discussing them as a package, because they relate to each other to a substantial degree and in substance. The separate elements I have contained in other bills, one of which is LB511. Since I've talked about that's the tax portion of LB510, I will waive any discussion of that if you wish and simply answer questions, and will not present separate testimony LB511. The other portion on the trust fund will be heard in another committee. Thank you very much. [LB510]

SENATOR JANSSEN: Any questions? Senator Langemeier. [LB510]

SENATOR LANGEMEIER: Thank you, Chairman Janssen and Senator Avery. In your bill, I want to get back to the portion you referred to as the investment in the future. It says if you study in an educational program, and then on the back it says an educational program of need means an area of instruction that would benefit the state of Nebraska by increasing skilled work force in such areas. Would not anybody with higher

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education be considered skilled and be valuable in the state? Wouldn't any degree fall under that? [LB510]

SENATOR AVERY: Oh, no. I wasn't skilled nor needed. (Laughter) I'm sorry. [LB510]

SENATOR LANGEMEIER: I'll let you be the judge of that. And the other thing that I question in the implementation of this more so than the idea is I had the fortune to go to the breakfast this morning with Coordinating Commission, and they gave me an example of one of their colleges that a student was studying dental hygiene to be a dentist and then found out that they really had nothing when they had their degree. It was not accredited. Could we not put someone down this path to be one of these skilled work force where there's a job of need in Stapleton, Nebraska? And then upon graduation find out nine others from other schools had already graduated and filled the one position that was out there. [LB510]

SENATOR AVERY: Well, the Coordinating Commission would have a responsibility for making sure things like that didn't happen. They're skilled professionals. And by the way, they have suggested a sheet of amendments here that would make it easier for them to avoid problems like that. And it's really an implementation amendment and I would like to have that introduced into the record, please. And while I'm at it, if I may sir, I have here a letter of support from Stan Carpenter, chancellor of Nebraska State College System. There is one other thing that we might want to consider. And that is adding community colleges. We refer in the bill to state universities and state colleges and that was not my intent to omit community colleges, but some might perceive that to be an omission. Furthermore, I have...again, I'm taking your time, Senator Langemeier. I'm sorry. [LB510]

SENATOR LANGEMEIER: That's fine. I'm done. [LB510]

SENATOR AVERY: But I didn't actually complete my testimony, I guess. I have here also a letter of support or an e-mail from the Seward County Assessor. I'd like to have that entered into the record as well. [LB510]

SENATOR LANGEMEIER: Thank you. [LB510]

SENATOR JANSSEN: Senator White. [LB510]

SENATOR WHITE: Private colleges. Did you intend to omit them? [LB510]

SENATOR AVERY: Yes. [LB510]

SENATOR WHITE: Why? [LB510]

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SENATOR AVERY: This is state money and I think that state money ought to go to support programs at state colleges, universities, and community colleges. [LB510]

SENATOR WHITE: So the money is for the colleges, not for the students and the citizens of the state of Nebraska? [LB510]

SENATOR AVERY: Well, the money goes to the students to stay at those college, yes. [LB510]

SENATOR WHITE: So there is a class of citizens who attend public schools and then a class that attend private schools, and one gets benefit from scholarship money and one does not. [LB510]

SENATOR AVERY: If you wish to advance this with that amendment, I would be delighted. [LB510]

SENATOR WHITE: Thank you. [LB510]

SENATOR JANSSEN: Any other questions? Seeing none. [LB510]

SENATOR AVERY: May I say one more thing? [LB510]

SENATOR JANSSEN: Oh, absolutely. [LB510]

SENATOR AVERY: One purpose in bringing this to you is to make sure--and I know that you have thought of this--make sure that we have, on the floor, a number of different alternatives. And I know, Senator Janssen, that you have some things in mind that are similar to this and I'm not naive. I'm a realist. I understand that I'm likely not to compete well with you since you chair the committee (laughter), but... [LB510]

SENATOR JANSSEN: (Laughter) That doesn't cut much mustard. [LB510]

SENATOR AVERY: ...but I do want to have as many ideas on the table. I do think that we need to be very, very careful what we do this session, because we're going to live with this for a long time. And I really think that having the property tax ideas out there, for example, Senator White's. I think having those things out there for us to talk about is very important. And please, if I can leave you with nothing else but this thought. Let's use some of this money, this is opportunity money. Opportunity money to make an investment in the future of this state. That trust fund will be here when my grandchildren are well past college age. It'll be here when your grandchildren are past college age... [LB510]

SENATOR JANSSEN: They are. (Laughter) [LB510]

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SENATOR AVERY: ...to contribute to the ongoing well-being of the state and is an opportunity we should not squander. Thank you. [LB510]

SENATOR JANSSEN: Okay. Would you like to go ahead and open on LB511 and we'll just take testimony on both of them? [LB510 LB511]

SENATOR AVERY: Okay, yeah. LB511 is the tax portion of LB510 and I won't go into all of the discussion and testimony that I gave before. It does provide exactly the same change in the ag land valuation, exact same formula for the property tax homestead exemption. I note that the fiscal note on this bill is not as large as I thought it might be. It's big enough, but I thought it might be at least twice as much as it is. There's money, presumably, in the surplus to do this. Property tax relief is something that voters are clamoring for. I respectfully disagree with the Governor that they're asking for income tax relief. I'm not hearing it. And I just got off a campaign. A contested campaign, heavily contested campaign. I had to work to get there. [LB510 LB511]

SENATOR JANSSEN: It paid off, I think. [LB510 LB511]

SENATOR AVERY: Well, you don't know yet, see. You might be sorry. [LB510 LB511]

SENATOR JANSSEN: Any questions? Okay. All right, we'll take some testimony now. [LB510 LB511]

SENATOR AVERY: Okay, thank you. [LB510 LB511]

SENATOR JANSSEN: Thank you. All right, we have proponents first. [LB510 LB511]

PETE McClymont: Senator Janssen, members of the Revenue Committee, I'm Pete McClymont, P-e-t-e M-c-c-l-y-m-o-n-t, and trust me this is the last time I'm coming up today. I'm VP of legislative affairs for Nebraska Cattlemen. All the things that Senator Avery talked about we like. The one component that very much intrigues us and we like his innovative approach on LB510, is that education, the scholarship trust fund. In evidence to that, a year and a half ago, we have six committees, and the newest is the education committee which we started, as I said, a year and a half ago. In fact, your colleague, Senator Hansen was the one that got that started within our association. And one of the things we've tried to do is to enhance the beef industry with what's happening at the university through the animal science department. And so we've gone out and actively recruited people, young students, to go to the university and we've also tried to help in deferring costs for professors, because, as an example, with the ethanol industry that's proliferating right now, there's many things that come out of ethanol production that can affect our state and the resources. And so to that, we've worked with UNL to try to kind of be ahead of those problems. And so this scholarship fund trust goes to that

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effort and so we're really appreciative that Senator Avery has included that in LB510 and all the other factors on lowering the land value to 65 in terms of property tax. So, anyway I would conclude my comments and welcome any questions, Senator. [LB510 LB511]

SENATOR JANSSEN: Any questions? Senator Langemeier. [LB510 LB511]

SENATOR LANGEMEIER: Thank you, Chairman Janssen. Thank you for your testimony. You talked about the educational component of this and the animal science and the recruitment, and I commend you for that. I'm well aware of that. Can you give me an idea under this definition of an educational program, of needs, means, and area of instruction that would benefit to stay in Nebraska of skilled work force? Give me a job that would be an animal science grad that you feel falls under this. [LB510 LB511]

PETE McCLYMONT: Maybe not necessarily animal science, Senator Langemeier, but one area that could come out of this, for instance, in ethanol process phosphorous is concentrated. And so you feed it to an animal and that phosphorous is there. It's a nutrient that the land needs, but if over-applied it then becomes a problem to our resources to the state. So to that fact, maybe biologists, something along that line could be helpful as we research this, even into the ranch areas where ranchers are starting to have to use distiller grains. So maybe that's a finite sector to look at, but that would be an area where I feel that could be a benefit to our state and our natural resources through the university. [LB510 LB511]

SENATOR LANGEMEIER: Okay, thank you. [LB510 LB511]

PETE McCLYMONT: Thanks. [LB510 LB511]

SENATOR JANSSEN: Any other questions? Don't see any. [LB510 LB511]

PETE McCLYMONT: Thank you. [LB510 LB511]

SENATOR JANSSEN: Next proponent. [LB510 LB511]

DENNIS BAACK: Senator Janssen and members of the Revenue Committee, for the record, my name is Dennis Baack, B-a-a-c-k. I'm the executive director of the Nebraska Community College Association here to support LB510. I was glad to hear that Senator Avery did include the community colleges, because as the bill was originally written I'm not sure that it did include us, and I think that that was an important piece. And Senator White to address your thing about privates, I think the privates absolutely should be included. [LB510 LB511]

SENATOR WHITE: Scholarship for students that are Nebraskans, not schools. [LB510

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LB511]

DENNIS BAACK: And we're talking about expertise in certain areas and certain fields that need more people in those fields. Some of the private schools have those areas of expertise. It would behoove us to utilize that expertise and not try to duplicate those things in the public sectors. So, I mean, I think those should definitely be included. One of the things that I would like to see happen, though, when they start looking at the area needs and the program needs that are out there for work force and stuff, I would hope that the Coordinating Commission would consult with us and the community colleges, because we probably have the best network with existing businesses and in all of the local areas and stuff that we can utilize that network to help them identify those special needs that might need to be met across the state. So I think this has some great potential and I would hope you would put out a very comprehensive kind of bill if you put one out in this area. With that, I would take questions if you have any. [LB510 LB511]

SENATOR JANSSEN: Questions? Don't see any, thank you, Dennis. Next proponent. [LB510 LB511]

JAY REMPE: Senator Janssen, members of the committee, again, my name is Jay Rempe, R-e-m-p-e, state director of governmental relations for Nebraska Farm Bureau here today to offer our support on both LB510 and LB511 to the extent that they reduce the ag land value and reduce ag land taxes. Just a couple of comments real quick. I know it's late in the hour. On the ag land value, I think one of the reasons we need to continue to look at that, you're seeing in today's ag markets and maybe Senator Langemeier can confirm this, we're seeing more and more non-agricultural factors in those markets. People buying them for tax 1031 exchange purposes, people buying it for recreational purposes, whatever. There's a lot of different influences out there. In fact, a UNL study in 2005 showed that of the market that traded in ag land, only 59 percent was purchased by active farmers and that's the lowest percentage in 20 years. When we originally set the 80 percent of market value, it was about 80 percent of farmers. So when you're dealing with an income producing asset like ag land is and you have all these other factors and influences influencing the market, and your property taxes are based on those other factors in part because of the value, it gets harder and harder to meet that. And so reducing that valuation is a greater buffer on that. And then secondly I'll just make a comment, when you look at how other states handle ag land not only do they look at or they base their values on the productivity of the land instead of the market value, but they assess it at quite a bit less than Nebraska does. For example, Colorado assesses at 29 percent, Kansas assesses at 30 percent. So when you look at how we compare to the other states we still have some work to do in that regard. So we support the bills and I'd be happy to answer any questions you might have. [LB510 LB511]

SENATOR JANSSEN: Any questions? Thank you, Jay. Any other proponents? Taking

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proponents. Seeing none, any opponents? Anyone against the bill? I don't see any. How about anybody in a neutral capacity? Here we go. We got a lot of them in neutral here. [LB510 LB511]

MARSHALL HILL: (Exhibits 10 and 11) Senator Janssen and committee members, my name is Marshall Hill, M-a-r-s-h-a-l-l H-i-l-l. I'm executive director of the Nebraska Coordinating Commission for Postsecondary Education. I'm here to testify in a neutral capacity on this bill, to bring some items of information to your attention. First, the commission is interested in promoting in any way it possibly can, an increase of financial aid for the students of Nebraska. One of the charts we're providing for you shows a comparison of the amount of financial aid, need-based financial aid, that Nebraska provides its students as compared to the amounts of our surrounding states. You'll see that in 2004-05, Nebraska provided about \$106 of need-based financial aid for undergraduate full time equivalent students. The low ranged from our neighbors to the north, South Dakota, which for reasons which escape me, provide no instate support, and to a high of \$690 for Illinois. So that's one item that we'd like to bring to your attention. The green sheets provide some additional context for the degree to which Nebraska supports its students in higher education. For the last several years, a national organization has been doing a national report card on higher education issues, and Nebraska, in 2006, received an F as did many other states--43--in affordability of postsecondary education. That recognizes that costs to attend institutions continue to accelerate far faster than available financial aid sources. We're getting a bit better in comparison to other states. We currently rank 37th, we were 38th. So we're moving in the right direction. The other comments that I would make about this. This kind of program that Senator Avery has described to you is fairly common in many states. It has many appealing characteristics. It can provide initial incentives to people who otherwise would not consider attending, to let them know that there are the financial resources available to support their attendance and completion. It can influence student choice into areas which are needed, and that has some societal benefits as well. The other comments I would make would have to do with the administration of this. First, we would fully support the addition of community colleges to that as well and would certainly have no objection to the inclusion of the independent colleges, degree-granting colleges and universities as well. The bill, as written, provides a lot of discretion to the Coordinating Commission to determine a lot of the issues about how the program would be administered. To respond to my friend, Dennis Baack, we would indeed cast our net widely about suggestions as to how to identify what fields should qualify, what disciplines should indeed qualify. We would also work with the economic development folks here in the state as well. And then also seek comments from business and industry. And we would hold several hearings in order to bring that about. We have prepared a fiscal note for this aspect of the bill. This kind of program is fairly expensive to administer, because you need to find ways to track down students whose minds change, as students do. For example, if a student were to initially say they were going to study nursing, enroll in a nursing program for two years, get two years of support,

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change their major to political science, then perhaps no longer be eligible for the scholarship we would have to have a mechanism to find the student and recover those funds. If the student--let's take the nursing student--were to continue, complete, become a nurse, go practice in a rural area of the state where there was a need for nurses, but then after one year move to Houston, we would have to find a way to recover that. So the tracking, the keeping up with students, the collection of funds that would undoubtedly occur would be there. We think we're capable of doing that. We would need additional resources. That concludes my comments and I'd be pleased to respond to any questions you might have. [LB510 LB511]

SENATOR JANSSEN: Any questions? Senator Langemeier. [LB510 LB511]

SENATOR LANGEMEIER: Chairman Janssen, thank you. And you know I've asked the question a number of times here, what these educational programs are and, obviously, politicians you don't think there's a need for politicians. No comment necessary, thanks. [LB510 LB511]

MARSHALL HILL: I'm glad you said that, Senator. I would never say such a thing (laughter), but I think we would... [LB510 LB511]

SENATOR LANGEMEIER: You kind of did. [LB510 LB511]

MARSHALL HILL: ...we would presume a fairly high clustering in health-related disciplines and engineering and some high-tech kind of fields, and some of the kinds of programs that the community colleges are doing a great effort in to respond to local work force needs, and so forth. We clearly would have to have some sort of mechanism to identify what to include and what not to include and we could go through and do that. [LB510 LB511]

SENATOR LANGEMEIER: One more follow-up question. That made me think a little bit. We heard testimony just yesterday from the Department of--DED--Department of Economic Development told us there were over 30,000 jobs in Nebraska unfilled paying \$30,000. That wouldn't be the engineers that you just talked about. Would there be some coordination with them to discuss the opportunities that they see out there for people that are going unfilled? [LB510 LB511]

MARSHALL HILL: Yes, yes, sir, there would be. And we actually do talk to sister agencies and work with them quite closely. We have a number of initiatives we work on together. FutureForce Nebraska is a good example of that. Working with our colleagues in various sectors and with the business and industry leaders to identify needed work force areas and ensure that we've got the pathways for students to work to prepare for those jobs, be they jobs that require only high school preparation or community college associate degrees, or onto graduate programs. So, yes, we would work closely with the

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Department of Economic Development. [LB510 LB511]

SENATOR LANGEMEIER: Thank you. [LB510 LB511]

SENATOR JANSSEN: Any other questions? Seeing none, thank you. [LB510 LB511]

MARSHALL HILL: Thank you, sir. [LB510 LB511]

SENATOR JANSSEN: Next testifier. [LB510 LB511]

NANCY SALMON: Good afternoon, Senator Janssen and members of the Revenue Committee. My name is Nancy Salmon, S-a-l-m-o-n, and I'm the Hamilton County Assessor. I would just like to testify neutral on both LB510 and LB511. The testimony actually is the same as on LB366. I won't take anymore of your time. If you'd just like to listen to that. And also, the spreadsheet I included on that, I figured the 65 percent and 70, 75, and the 80. So that can give you a little bit of an idea what the shift of taxes would do. I'd welcome any questions. [LB510 LB511]

SENATOR JANSSEN: Questions? Seeing none, thank you, Nancy. [LB510 LB511]

NANCY SALMON: Thank you. [LB510 LB511]

SENATOR JANSSEN: Tip. [LB510 LB511]

THOMAS O'NEILL: (Exhibit 12) Senator Janssen, members of the Revenue Committee, my name is Tip, T-i-p, O'Neill, O-n-e-i-l-l. I am president of the Association of Independent Colleges and Universities of Nebraska. I represent 14 privately-controlled, nonprofit, colleges and universities located here. I would urge the inclusion of students who attend private colleges in this program. I just wanted to indicate a couple reasons why. First of all, we have enrolled 26,000 students in Nebraska. We award 39 percent of the bachelor's degrees. We award more than one-half of the degrees in the health sciences. We award more degrees to minority students than in the public sector. We award more degrees to African American students, for example, than the university and state colleges combined. A survey conducted by the National Postsecondary Student Aid Survey, in 2003, indicated that the family incomes of Nebraska residents who attend Nebraska private colleges and universities is actually lower than the median family incomes of those who attend Nebraska four year public institutions. The cost, obviously, to the state of generating a degree in the independent sector is much less than in the public sector. Students who attend our colleges, all the money that is received is in the form of student aid. It's about four-tenths of 1 percent of the state budget for higher education. The cost of generating a degree, Senator Burling, for example at Hastings College is about \$1,000 last year. The cost of generating a degree in the four year public sector is somewhere between \$40,000 and \$70,000. So we think there are plenty

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of good reasons for including us and we would support that inclusion. I'd be happy to answer any questions you might have. [LB510 LB511]

SENATOR JANSSEN: Questions? You're off the hook, Tip. [LB510 LB511]

THOMAS O'NEILL: Thank you. [LB510 LB511]

SENATOR JANSSEN: Anyone else in a neutral capacity? Anyone else? I don't see any, Bill, to close. [LB510 LB511]

SENATOR AVERY: The hour is getting late. You're tired and so am I. So I'm going to make only two points. One, I had a conversation with Richard Baier who is the director of economic development for the state, and I asked him what is your greatest need. He said we need an educated work force. We don't have the workers that the employers are demanding. Remember that. Also, to address Senator Langemeier's questions about the trust fund for scholarships, I think we need to keep it flexible. We don't want to fix, in law, what kind of scholarships we would be funding, what subjects, because this needs to be a living breathing program that's able to adapt to changing needs of the state. With that, I will leave. [LB510 LB511]

SENATOR JANSSEN: All right. [LB510 LB511]

SENATOR AVERY: Thank you. [LB510 LB511]

SENATOR JANSSEN: Does anyone have any questions before he leaves while we still have him here? I don't see any, thank you. [LB510 LB511]

SENATOR AVERY: Thank you. [LB510 LB511]

SENATOR JANSSEN: Thank you, Bill, and that ends the hearing on those two particular bills and ends the hearings for the day. [LB510 LB511]

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Disposition of Bills:

LB334 - Advanced to General File, as amended.

LB366 - Indefinitely postponed.

LB430 - Indefinitely postponed.

LB453 - Indefinitely postponed.

LB684 - Indefinitely postponed.

LB510 - Indefinitely postponed.

LB511 - Indefinitely postponed.

Chairperson

Committee Clerk