

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 07, 2014

---

[LB670 LB813 LB913 LB1038]

The Committee on Revenue met at 1:30 p.m. on Friday, February 7, 2014, in Room 1524 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LB670, LB813, LB913, and LB1038. Senators present: Galen Hadley, Chairperson; Paul Schumacher, Vice Chairperson; Tom Hansen; Burke Harr; Beau McCoy; Pete Pirsch; and Kate Sullivan. Senators absent: Charlie Janssen.

SENATOR HADLEY: Welcome to the Revenue Committee. We appreciate your being here today. My name is Galen Hadley. I represent the 37th District in Kearney. I'm Chair of the committee. To my left is Senator Schumacher from Columbus, the Vice Chair. To his left will be Senator Pirsch from Omaha. Don't feel slighted if senators get up and leave and come back. We're all introducing bills in other committees, so it takes a little while to get that done. Next to him is Senator Sullivan from Cedar Rapids. On the far right will be Senator Harr from Omaha; Senator Janssen from Fremont; Senator McCoy from Omaha; Senator Hansen from North Platte. Our legal counsel is Mary Jane Egr Edson. Our committee clerk is Krissa Delka. Drew is our...page--words are a little hard on Friday afternoon--page. I'd appreciate it if you'd turn off your cell phones or put on vibrate while in the hearing room. The sign-in sheets for testifiers are on the tables by both doors and need to be completed by everyone wishing to testify. If you are testifying on more than one bill, you need to submit a form for each bill. Please print and come up...complete the form prior to coming up. When you come up to testify, hand your testifier sheet to the committee clerk, and make sure you spell your first and last name. The microphones we have here are really not for amplification. We tape all the hearings and we come up with an official transcript. So if you touch it, rub up against it, the transcribers have a difficult time hearing then. So you really don't need to touch it. You don't have to move it around. And I have heard that the senators need to make sure that they lean forward and articulate what they're saying. We will follow the agenda posted at the door. The introducer or representative will present the bill, followed by proponents, opponents, and neutral. Only the introducer will have the opportunity for closing remarks. As you begin your testimony, state your name and spell it. If you have handouts, please bring ten copies for the committee and staff. If you only have the original, we will make copies. Give the handouts to the page to circulate to the committee. We have quite a crowd today so I am going to use the light system. You will start; there will be a green light. After four minutes, the amber light will come on and that is about the time you need to be wrapping up your testimony. Then eventually the red light will come on. You don't have to stop in midsentence, you don't have to stop in midthought, but don't try to read three pages after the red light comes on. We only do that because we want to hear everybody and get everybody's viewpoint on this important issue. With that, I would ask Senator McCoy to come to the microphone and introduce the first bill, LB670. Senator McCoy. [LB670]

SENATOR McCOY: (Exhibit 1) Thank you, Chairman Hadley and members of the

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 07, 2014

---

committee. For the record, I am Beau McCoy, B-e-a-u M-c-C-o-y, and I represent the 39th District in the Legislature. And I am here this afternoon to introduce LB670, which would reduce agriculture land valuations from 75 percent to 65 percent for taxation purposes. This would be phased in over a three-year period, in this legislation, which I think but for that is very similar to Senator Hansen's bill that I think we'll hear next, I believe, which I think his would phase it in over two years. Phase it in over three years from 75 percent down to 72 percent in tax year 2015, and from 72 percent to 69 percent in 2016, and then the final 4 percent in tax year 2017. As all of us, as members of the Tax Modernization Committee, as we traveled the state asking, soliciting, welcoming feedback from citizens across the state, I think we heard overwhelmingly that property taxes are a huge burden today in Nebraska, not just for our ag producers but for Nebraskans as a whole. And I think that's even further complicated with commodity prices where they are today and the ups and downs of the ag economy that obviously is a pattern that we go through. I think that we heard story after story about how high property taxes are really a burden for families, small businesses, farmers and ranchers. We spent a lot of time putting together this legislation. I would imagine, as there always is, there are always two sides to a story, two sides to an issue on a piece of legislation--we'll probably hear some of those today--with those that might see complications to this legislation. But as all of us know, we spent a pretty good amount of time talking about how that reducing ag land valuations would really make a big difference to people across Nebraska. You can see in your handout a few of the things that I'll mention as we go along here, and I'm sure that we'll probably hear from testifiers. If you really drill down into the data, whether it's what we heard from the Property Tax Administrator in the last few weeks or since the beginning of session, you know, ag land provides 29 percent of all property tax revenue in the state, which is up from 24 percent just a little more than a decade ago, back in 2002. And property taxes themselves account for about 45 percent of all tax revenue collected statewide. So it's a...we've talked a lot about what's the proper balance between income, sales, and property taxes--that three-legged stool that we spend an awful lot of time talking about--and does that make sense. And if that makes sense, then certainly we have a higher burden with property taxes than a third and a third and a third. You know, and I'm sure we'll hear today and many of us know, certainly all of us that represent agriculture producers in some way, shape, or form in our districts across the state, that agriculture producers are 3 percent of our state's population, but yet they're paying nearly 25 percent of total property taxes. I think that's a situation that we need to remedy and we should. You know, there's been several different times throughout the course of our history that we have changed, since 1992, when we reduced down to 80 percent the valuations for taxation purposes. Then obviously we went, in 2006, down to 75 percent. And that's helped, but as valuations have gone up, that's really become difficult to combat that. Those valuations are climbing at such a rapid rate, as we all know as we've looked at the data. It's very difficult for our producers to keep up with that. And I think this is one way that we can help and I think we should. I think it's very interesting. The USDA just put out some statistics just in the last few weeks showing that Nebraska

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 07, 2014

---

ag producers are paying the third highest total property taxes in the country, behind only Texas and California: Texas, with the most acres in agriculture of any state in the country, and California with the most expensive ag land in the country. And I think that really puts us at a competitive disadvantage for agriculture with our neighboring states, particularly since some of them tax ag land in a very different manner than we do. And I think we should be trying to find ways to remedy that as much as we can. And I think this is a piece of legislation that has the potential to do that, especially in light of, you know, situations like in Scotts Bluff County. The Scottsbluff Star-Herald just reported the other day that dryland farm ground out there will go up 20 percent in valuations when those numbers come out in June. I think that's, you know, we're in a situation there where reducing from 75 percent to 65 percent makes sense, in my mind. There's certainly a number of different ways that you can go about it. I think we can go about it efficiently. We can do it in a responsible way, and that's why this is set to go into effect over a period of three years, because I think that gives us time to find out what the challenges may be with doing that. But I think that any challenge that we face under this legislation and by taking action like this is worth it for what it will mean to our overall state economy and especially to agriculture in Nebraska. With that, Senator Hadley, I would conclude and take any questions. [LB670]

SENATOR HADLEY: Thank you, Senator McCoy. Are there questions for Senator McCoy? Senator Pirsch. [LB670]

SENATOR PIRSCH: Thanks. What is the substantive difference? Senator Watermeier had introduced kind of a ratcheting down last year from 75 percent to 65 percent, and I'd cosponsored. How does that bill last year, I think it's still in committee, compare? What are the relative differences between that and your bill? [LB670]

SENATOR McCOY: Well, they're all different slightly. This I think, and I'm trying to remember the particulars of that bill and I think maybe Senator Brasch had one as well, but this one, ours, to my knowledge anyway, is the only one that phases in over three years in a way that...in the method in which we did, which I think is a way for us to budget. And our local partners, whether they be city and county government, also our school districts, gives them an opportunity to plan for it as well and for the implications, as Senator Sullivan well knows with the Education Committee, the implications this will have with TEEOSA and otherwise. So I think this is a responsible way to go about it. We're not doing it all in one fell swoop, even though that is something we probably would all desire if we could. But I think this makes sense to do it in a responsible manner. [LB670]

SENATOR HADLEY: Okay. Senator Sullivan. [LB670]

SENATOR SULLIVAN: Thank you, Senator Hadley. Thank you, Senator McCoy. You're absolutely right that we heard those things that the constituents in our hearings wanted

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 07, 2014

---

property tax relief. But I sort of phrased it a little bit differently as I've kind of reflected on that. They said they valued education, they wanted more state aid into education, and then to achieve property tax relief. So my question is, undoubtedly, when you said there's two sides to a story, but there's also two sides to the equation. So do you have any thoughts about how we do, in fact, balance, when we take these reductions in property value that we tax at the local level, how we counteract that with additional state resources? [LB670]

SENATOR McCOY: Well, certainly when you look at, and you're more familiar than most with TEEOSA and state aid and the inner workings of that, but clearly there are equalized and unequalized school districts. You know, when you have that local needs and then the local capacity and then how that's factored in with the state aid, when we would reduce ag land valuations, that's going to affect that, of course. But I think that that needs to happen in order for there to be the best way we can, at the state level, to affect lower property taxes while still allowing that local control that I think we treasure, because I agree with you. I think that we heard that Nebraskans do value education. And I think we ought to all be very proud just in you and my time here in the Legislature and those that have been here longer than us and even those that have been here shorter times than we have. We have prioritized funding education, even in times of budget challenges. And I think that's a tribute to the value that we put on education and educating our young people across the state. And...but I think at the same time, there's a way to go about doing what we can at the state level to reduce property taxes and still allowing that local control to be there, allowing our local elected officials, our partners in this across the state, have the ability to address what they believe they need to do for their local school districts and counties and cities as well. So I think that's, you know, and in this case it's counties and school districts for the most part, obviously, but I think that's an important component of this, because there aren't very many ways, as we all know, to really affect property tax reductions at the state level. I think this is one. In addition, although it's not going to be heard in this, in this committee, I have a companion piece of legislation to this. It will be heard in the Appropriations Committee in the next few weeks, LB669, which would add \$85 million to the Property Tax Credit Relief Fund, because it isn't just those in agriculture but property taxes are very, very high for all Nebraskans. Whether you are a young family that are looking to buy your first home in Omaha or Lincoln or whether you're an ag producer in the Panhandle, it's a challenge. And it's one we've all heard a lot about, not just the last year through the Tax Modernization Committee but I think all of us experience that. It's probably the most common thing that we hear from, I would guess, from our constituents are high property taxes. At least I would suspect that's probably what we most hear about. [LB670]

SENATOR SULLIVAN: Thank you. [LB670]

SENATOR McCOY: But that local component, with how this is going to affect state aid to schools, is an important part of this, no doubt about it. [LB670]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 07, 2014

---

SENATOR SULLIVAN: Thank you. [LB670]

SENATOR HADLEY: Senator Harr. [LB670]

SENATOR HARR: Thank you, Chairman Hadley. Thank you, Senator McCoy. I couldn't agree with you more. Property taxes are high no matter where you go, whether it's residential...I haven't heard as much commercial, but, you know, we all heard ag. So I guess my question is, why do we...well, I guess my first question is, is in the '70s ag prices plummeted of land. If the price of...and there are some who say right now we're in a bubble, the top of a bubble on ag land. If the value of ag land were to decrease substantially, would you be open to increasing back to 70...if this were to pass, bubble were to explode, would you be amenable to raising it back up to 75 percent? [LB670]

SENATOR McCOY: Well, that's a hypothetical I don't think anyone, any of us want to contemplate thinking about, Senator Harr. [LB670]

SENATOR HARR: But we're making policy here so we have to look at the...we have to look long-term ramifications of what we do. And so I'm just trying to figure out how we handle that, if that were to... [LB670]

SENATOR McCOY: Well, I think in the current system that we have, this is one way, as I commented to Senator Sullivan when she asked her question,... [LB670]

SENATOR HARR: Yeah. [LB670]

SENATOR McCOY: ...I think this is one way we can, at the state level, address lowering property taxes. The hypothetical that you propose, that if there is some sort of a bubble, you know we've been through ups and downs in our state's history with land values, and hopefully we don't go through another period like we did throughout... [LB670]

SENATOR HARR: Well, exactly. [LB670]

SENATOR McCOY: ...agriculture in the 1970s and early 1980s. That was a difficult time for many of us, whether that...whether it's here in Nebraska or surrounding states... [LB670]

SENATOR HARR: All right. [LB670]

SENATOR McCOY: ...and I don't think... [LB670]

SENATOR HARR: Well,... [LB670]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 07, 2014

---

SENATOR McCOY: ...that that's a component of this that I would be willing to consider, no. [LB670]

SENATOR HARR: Okay. Let me ask you this then. [LB670]

SENATOR McCOY: I think this is a smart reduction that makes sense for the long haul. [LB670]

SENATOR HARR: Okay. Well, what would happen, residential properties have remained stagnant really since 2008, and they're starting to go up a little bit, especially at least in the Omaha community, metropolitan community where you and I are both from. If residential property were to increase at the same level as property has over the last five years, would you support a constitutional amendment or do you think it would be good policy to have a constitutional amendment to tax residential property at 65 cents on the dollar or 65 percent? [LB670]

SENATOR McCOY: Well, I'd answer that in this way, Senator Harr. That's why I mentioned the companion piece of legislation that I have. And I don't want to tell you about another bill that's not in front of this committee, but I think that property taxes are high for all Nebraskans, not just those in agriculture. But that's what we're here today to talk about with LB670. But if you look across the situation, and I know this very well being involved in the construction industry and the housing industry, we haven't seen valuation increases like we've seen in agriculture in residential or commercial... [LB670]

SENATOR HARR: Yeah, and I conceded that. But what I'm saying is... [LB670]

SENATOR McCOY: ...classes in Nebraska as many states have across the country. We also haven't seen the declines either. [LB670]

SENATOR HARR: Yeah. [LB670]

SENATOR McCOY: And so I don't think it's... [LB670]

SENATOR HARR: Well, how do you differentiate? [LB670]

SENATOR McCOY: I think it would be premature to look at that. [LB670]

SENATOR HARR: I guess explain to me how I should differentiate this, go back to my constituents? Let's put it this way. How do I go back to my constituents and say ag land valuations should be at 65 percent, residential should remain the same, especially if let's say there was an increase in residential property at the same percentage we've had in ag? How do I...what's my policy basis for doing them separately or differently? [LB670]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 07, 2014

---

SENATOR McCOY: Well, the fundamental policy reason is they are two different...the property is being utilized for two different purposes. [LB670]

SENATOR HARR: But not... [LB670]

SENATOR McCOY: One is being used to generate income that drives the number one industry in our state. [LB670]

SENATOR HARR: Okay. [LB670]

SENATOR McCOY: And so I think it is very fair to look at them in two different lights,... [LB670]

SENATOR HARR: Well, so let's look at that. [LB670]

SENATOR McCOY: ...and there hasn't been similar style... [LB670]

SENATOR HARR: Okay. So the reason the price of ag land has gone up, at least recently, is because the value of the land is worth more because the crop that is produced on it is worth more. So that's what...how you can support that higher price. Whereas, if my home goes up in value, I don't see any increase in income, I don't see any. The only time I get that money is when I sell the house, and yet I'll have to pay more in property tax. [LB670]

SENATOR McCOY: Well, again it's, Senator Harr, there are fundamental differences with how you look at residential property versus agriculture property and the uses and utilizations of both of them. And the reality is that... [LB670]

SENATOR HARR: But at the end of the day, you're paying a tax. [LB670]

SENATOR McCOY: Excuse me? [LB670]

SENATOR HARR: At the end of the day, you're paying a tax based on the value of that land. [LB670]

SENATOR McCOY: Correct. However, the valuation increases that we've seen, as you know, are a lot of times having to do with comparable sales and whatnot,... [LB670]

SENATOR HARR: Uh-huh. [LB670]

SENATOR McCOY: ...where you have many, many ag producers in Nebraska that don't have any intention on selling that property. It's been in their family for generations. They

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 07, 2014

---

hope it continues to stay in their family for many generations. They're not about to sell that property in a lot of cases, but yet they're paying, in many cases, greatly, greatly increased property taxes because of that. And we don't face the situation, the hypothetical, the doomsday hypothetical in residential property taxes, as you're talking about. If we did, my guess is we would be sitting here talking about doing something different with residential property taxes. That isn't to say, however, that it isn't an issue, because it is. That's why we put in place the Property Tax Credit Relief Fund in the first place back in 2007. And I think Senator Hansen might be the...and Senator Pirsch would be the only ones that I know of that would have been here to vote for that, as I recall. The rest of us have all been here...arrived at the Legislature since that point. And we continue to fund that through the appropriations process. It's my view that should be boosted to help those that have residential property in addition to those in agriculture. This bill is about reducing ag land valuations, which I think is of great importance to what we're doing across the state. [LB670]

SENATOR HARR: Okay. [LB670]

SENATOR HADLEY: Okay. Senator Schumacher. [LB670]

SENATOR SCHUMACHER: Thank you, Senator Hadley. Thank you, Senator McCoy. Is it the object of this legislation then to have less property taxes collected from agricultural landowners? [LB670]

SENATOR McCOY: Well, certainly, I think that would be the goal in mind would be to reduce property taxes for those that own agricultural land across the state. [LB670]

SENATOR SCHUMACHER: And that was fairly obvious from the bill. Then do you anticipate funding that loss of revenue in cuts in local spending? [LB670]

SENATOR McCOY: Well, as I indicated to Senator Sullivan, there is a delicate balance between what we can do in state government and really what we can't without losing, I think, the local control component of what we treasure about our state. That's why we have local officials. And I think that it's important to note that, whether it's the Property Tax Credit Relief Fund or whether it's reducing ag land valuations in this case, there are really only a few--and that's what a great part of what we talked about with the Tax Modernization Committee--there's really only a few ways that we really can get at property tax relief for Nebraskans. [LB670]

SENATOR SCHUMACHER: But let's...is one of the ways that you anticipate funding this loss of revenue by cutting local government spending or putting those local officials in a position where they have to cut local government spending? [LB670]

SENATOR McCOY: Well, I think we balance a budget and we expect everyone...

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 07, 2014

---

[LB670]

SENATOR SCHUMACHER: So is that a yes, Senator? [LB670]

SENATOR McCOY: ...to balance a budget. Well, I don't know what...I guess I don't know what you asked by cutting. We don't force anyone to cut. [LB670]

SENATOR SCHUMACHER: If you reduce the revenue flow by taking less from agricultural property owners, is one of the ways that the system continues to work by cutting the spending at the local level? [LB670]

SENATOR McCOY: Well, that's certainly one option that's available to them, yes. [LB670]

SENATOR SCHUMACHER: But... [LB670]

SENATOR McCOY: I would expect that to be one of the actions that would need to be taken. But that's why we have local control. That would be locally elected officials' decision then how they would proceed at that point with balancing their budgets. [LB670]

SENATOR SCHUMACHER: How does it work if those local officials say, no, we're not going to cut our local spending? What happens then? [LB670]

SENATOR McCOY: Well, that's up to them. [LB670]

SENATOR SCHUMACHER: Well, they... [LB670]

SENATOR McCOY: They've got decisions to make at that point. [LB670]

SENATOR SCHUMACHER: Well, they made a decision, they're not going to cut it. What happens then? [LB670]

SENATOR McCOY: Well, I'm not going to speak for those local elected officials, Senator Schumacher. I'm going to speak for what we can do here at the state level. And just as with LB, I think, 383 a few years ago back in 2010 when we eliminated state aid to cities and counties to balance our budget, we went to those local elected officials and we said this is a small percentage of your budget. There was a pretty great hue and cry over what would happen, and we haven't heard a whole lot about it since. [LB670]

SENATOR SCHUMACHER: Okay. [LB670]

SENATOR McCOY: And we expect, when we try to be as efficient with tax dollars as we

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 07, 2014

---

possibly can be, I think it's fair to expect all layers of government, of bureaucracy across our state to do the same thing. I think that's what Nebraskans expect. I'm not going to propose to try to answer what a locally elected official or group of officials would do in that case. [LB670]

SENATOR SCHUMACHER: To the extent the local officials do not make an offsetting cut in local spending, then would the proposal be to fund that revenue shortfall from the state level, dipping into our state sales and income taxes? [LB670]

SENATOR McCOY: Well, certainly there are other options out there. That's not what this bill proposes to do. [LB670]

SENATOR SCHUMACHER: Well, we've already established we have less money because we're going to give agricultural land property relief. Now the local officials, those cases where they do not make an offsetting cut in their budget and there's a shortfall, can't have something that you can't pay for, is...would this anticipate funding that shortfall with some type of transfers from the state government to the local government? [LB670]

SENATOR McCOY: No, this legislation doesn't anticipate that. [LB670]

SENATOR SCHUMACHER: Okay. So then if you have a situation, as we heard out west, where you have counties, large areas, which have very little commercial and residential valuation, most of their valuation is in farmland, and if you don't cut the budget but you reduce the valuation, do you then not have to have an offsetting increase in the levies from local government, and in the end the bill looks the same in those counties? [LB670]

SENATOR McCOY: Well, that's all going to depend on what the valuation change is year to year. [LB670]

SENATOR SCHUMACHER: We're mandating it to be at least... [LB670]

SENATOR McCOY: Well, I mean it's...as far as a valuation increase, where what the comparable sales are in those individual counties, you can't look at that. [LB670]

SENATOR SCHUMACHER: Well, let's assume it's...let's assume it's constant. [LB670]

SENATOR McCOY: Well, it's never a static situation. [LB670]

SENATOR SCHUMACHER: But let's assume it's constant, okay? If you reduce the valuation, don't cut the spending, isn't it...and you don't put in any state money, doesn't it necessarily follow that you have to increase the levy? [LB670]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 07, 2014

---

SENATOR McCOY: I didn't say that not putting any state money wasn't an option. I said this bill doesn't do that. Certainly there are options out there that could be undertaken. What I see is this. When we heard from the Nebraskans that we heard from, that I know you continue to hear from, I continue to hear from, regardless of where they are in the state, I didn't hear anyone from any of those counties, as you described, who said, well, we don't think our property taxes are too high. I didn't hear that. I heard, we believe our property taxes are too high and we want something done about it. [LB670]

SENATOR SCHUMACHER: So one of the options that we have to fund the shortfall then is transfers from the state income and sales tax to the local governments, and... [LB670]

SENATOR McCOY: As I said, there are options out there. That is, though, undertaken by local officials who are locally elected to determine how they're going to address the changes that reducing ag land valuations from 75 percent to 65 percent would be. [LB670]

SENATOR SCHUMACHER: And the only option they have is to cut it or to come to the state with their hand out to the state saying we need money from the state sales and income tax. [LB670]

SENATOR McCOY: As I said, that's certainly an option. [LB670]

SENATOR SCHUMACHER: So we can't look at this thing in isolation. If we lower a revenue stream someplace else, doesn't it necessarily follow we have to cut spending or raise taxes someplace else to fund what we lowered? [LB670]

SENATOR McCOY: Well, and what I would say in response to that, Senator Schumacher, I mentioned this as I opened, we have at two different times in our state's history--in 1992 when we moved to 80 percent and then in 2006 when we moved to the current position of 75 percent--have gone about changing how we have valued ag land for taxation purposes at the state level. And I would say we can look to the past for a model of how that is going to work out in practice. And in both cases, it reduced property taxes across the board for ag producers in our state. I think that will happen again. There are options. As I said in my opening, there are two sides to every story. I imagine you're going to hear some folks who are going to say this is going to create unintended consequences. But I will go back to what we talked about with the Tax Modernization Committee. This is one surefire way for us at the state level to make sure that we are reducing property taxes for those in agriculture. There aren't very many ways we can do that. One of them is additionally putting additional funds into the Property Tax Credit Relief Fund, which is going to lower property taxes for all Nebraskans. And one way for ag producers is to do what this bill proposes to do.

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 07, 2014

---

[LB670]

SENATOR SCHUMACHER: But if the county or the local government authorities raise the levy, because they have no place else to get the money, then this does not assure a tax cut to those people. [LB670]

SENATOR McCOY: Well, I would expect that to not happen. I would expect them to look at their budgets and to determine how they can be as efficient as they can be, just the same as we do at the state level. [LB670]

SENATOR SCHUMACHER: So in the end, the primary linchpin on this is forcing a cut in local government spending to make it work. [LB670]

SENATOR McCOY: Well, as I said, we balance our budget. I think Nebraskans expect us to, whether it was a constitutional obligation or not. And I think Nebraskans expect efficiency in their other...in our other governmental entities in local government as much as they do from the state. And I think that one way that we, as I go back to, one way that we can achieve a property tax savings for those in agriculture is by enacting what this bill proposes to do and expecting our locally elected governmental officials to do the same, to be as efficient as they can be, because not every county looks at things the same. Clearly, we have diverse diversities across our state. And some of our especially county governments are more efficient than others and have made better decisions. Just the same as we talk about all the time how different states, whether they be Kansas or others, you know we were just talking about this earlier today. You know, it...states handle things in a different way, much the same as counties and different areas of the state. I think we've been...we've been very efficient with how we've gone about our budget. We can always do better and I think so can other layers of government across our state. [LB670]

SENATOR SCHUMACHER: So to the extent there is a lessening of burden, tax burden somewhere in the system as a result of this, to the extent local government finds it cannot make offsetting cuts, what sector do you anticipate having to increase taxes on? [LB670]

SENATOR McCOY: Well, that's predicated on the fact, Senator Schumacher, that a local government finds that they can't make cuts. I don't accept that premise. I don't think that's...I don't think that is an acceptable premise. I don't think that there is ever a situation that anybody is going to say there are no possible ways we can be more cost efficient with taxpayer dollars of Nebraskans. [LB670]

SENATOR SCHUMACHER: Thank you, Senator McCoy. [LB670]

SENATOR HADLEY: Senator McCoy, I guess this is more of a statement than a

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 07, 2014

---

question. You know, I certainly understand the problem because I listened across the state, Tax Modernization Committee. My concern is that we have a number of local governmental units that depend on property taxes: the schools, counties, the NRDs, the ESUs, the community colleges, just to name five. And there's probably more but that's what I think of at this point in time. And I just have a concern, we have a big state and we have many different scenarios and I just...I'm trying to get a handle on how is this going to impact Mid-Plains Community College versus Metro Community College versus the community college in Scottsbluff, or how is this going to impact Dawson County versus Otoe County versus Omaha Public School System versus Hyannis Public School System. It seems to me that these are all...the way they're going to be impacted could be very different across the state. So how do we get a handle to make sure that we don't do this and then find out next year that we've got just serious problems in these areas that are funded basically by local property taxes? How do we kind of look at those to be sure that we're not making a mistake? [LB670]

SENATOR McCOY: Well, I think, Senator Hadley, by doing this how we're laying this out, stepping this in, in a three-year phase-in that doesn't start until 2015. I think that gives us the ability...which hasn't been done in the past, by the way, in either time, unless I've missed it in the data. Going back to 1992 or 2006, that change was made by essentially flipping a switch. It wasn't phased in as we're...as I'm proposing in this legislation. I think that's a responsible way to go about this. We've done this in the past when it was determined this is what was needed to make a difference to reduce property taxes for those in agriculture. I think we can do it again. I think that the situation that we find ourselves in across the state--and we all heard about it, as you said, as we traveled the state with the Tax Modernization Committee--you could argue it's maybe a greater need today than what it was in 2006 or what it was in 1992. And we made...the Legislature made those changes then in response to the situation that existed across the state, and I think that situation exists today. [LB670]

SENATOR HADLEY: Thank you, Senator McCoy. Any other questions? Thank you, Senator McCoy. Okay. Can we have the first proponent, please? [LB670]

STEVE NELSON: Good afternoon, Senator Hadley and members of the committee. My name is Steve Nelson, S-t-e-v-e N-e-l-s-o-n. I'm president of Nebraska Farm Bureau and I'm here to testify on behalf of Nebraska Farm Bureau. I am a farmer from Axtell; farm with my son and raise irrigated corn, soybeans, and seed corn. We're going to reserve most of our testimony for the next bill, but I just wanted to say that we support a lot of the things that Senator McCoy does in his bill. And I'll look forward to answering as many questions as I can after we testify on Senator Hansen's bill. Thank you. [LB670]

SENATOR HADLEY: Okay. Any questions? Seeing none, thank you, Mr. Nelson. [LB670]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 07, 2014

---

STEVE NELSON: Okay. [LB670]

SENATOR HADLEY: Next proponent. If you would hand your green sheet over to the clerk, and if you'd state and spell your name. [LB670]

JAREL VINDUSKA: Yes. Senator Hadley, members of the Revenue Committee, my name is Jarel Vinduska, Jarel is spelled J-a-r-e-l, Vinduska if V-i-n-d-u-s-k-a. I'm in support of LB670 and also LB813, but I came up for this one. Actually, I prefer LB813 a little better but...because it takes effect sooner, but I came up for this one because I saw the opportunity to maybe answer a couple questions. Senator Harr, you asked what you'd tell your more urban constituents about why farmers basically should get a break on insurance...I mean, on insurance, on property tax. The reason I'd give you is like on our farm, we're in Sarpy County, we're on equal par with the urban residents in that we pay actual market value on our house. We pay actual market value on all other infrastructure, barns and other buildings. We actually pay actual market value on the land that it sits on. In fact, in Sarpy County our assessor does a little better than our actual market value. You've probably heard about this issue. But they assess in Sarpy County our land underneath our house and buildings as if...exactly the same as if it was a one-acre parcel in a subdivision. So, for instance, on our farm the acre under the house is \$62,000 it's assessed at, because he compares it to a lot in a subdivision, even though the actual market value today of the land is somewhere in the neighborhood of \$6,000, maybe up to \$8,000 at the most. So we are, in that regard we're paying the same amount. So then we shift over to the ag side, the ag land. There's no relationship on ag land based on your ability to pay like there is in income or sales tax. If the prices of agricultural commodities went up and so farmland went up, not only because of the price of agricultural commodities but because of investors needing a place to invest money that they were getting low returns on elsewhere. So it shot up. But now the price went down, but there's no...so now there's no ability to pay based on that price that's inflated up. So that's what puts us in a world of hurt. And, Senator Schumacher, you were saying about, well, what do we do with this reduced income flow? Well, like our farm, 25 years ago in the late '80s it was worth \$1,000 an acre. About ten years ago it was worth about \$3,000 an acre. So in the last eight, ten years now it's shot up to \$6,000 or \$8,000 an acre. Well, you're making the assumption that...and farmers generally are getting more elderly. They generally aren't supplying too many kids to the school system. And yet, they're having to foot...you're making the assumption that in this last eight, ten years, when land prices have doubled, tripled, or four times more, that that added income that was got at the mill levy that existed needs to be spent by the school district. You're calling it a cut when actually they just had more money to spend. What's wrong with going back with what we had, the amount of income flow that was, you know, six, eight years ago? Sure, you got to account for inflation, I understand that, but there's an astronomical greater amount of money flowing from the farmland right now because of these rapidly increasing prices. So I guess that's the issue with me, is you know the Governor likes to talk about cutting income tax but at least with

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 07, 2014

---

income tax, that represents your ability to pay. But property tax, when ag commodities go down and you're still stuck with high prices, you're put in a world of hurt in a hurry. So if you've got any questions, that's... [LB670]

SENATOR HADLEY: Are there questions? I guess I just have a quick question. You mentioned the ag land and the ability to pay in and the income. I had a constituent that e-mailed me and said, I live in my house and my property taxes are not dependent on what I make off of that house. You know, that house is where I live... [LB670]

JAREL VINDUSKA: Uh-huh. [LB670]

SENATOR HADLEY: ...and they're taxing it on the value and that the house produces no income for me. [LB670]

JAREL VINDUSKA: Yeah. [LB670]

SENATOR HADLEY: So how do we equate a farmer who is on land that's producing income versus someone who lives in a house and we're charging property tax on that and that person, that house is not generating any income for that person? [LB670]

JAREL VINDUSKA: Well, like I said, like I said, the farmer lives in a house, too, and he's paying just like the urban person. His income from his land varies. If you base that income based on a high figure that was inflated high, and then the price goes down, you don't have no ability to make any additional income to pay that inflated property tax based on that inflated figure. [LB670]

SENATOR HADLEY: What has, in your opinion, has farm income gone up over the last five years? [LB670]

JAREL VINDUSKA: Yeah, it's gone up. [LB670]

SENATOR HADLEY: Pretty significantly? [LB670]

JAREL VINDUSKA: Yeah. Now it's going down significantly. [LB670]

SENATOR HADLEY: It's going...why, didn't last year...wasn't last year another... [LB670]

JAREL VINDUSKA: Well, last year was good, but I mean now, right now, the prices are dropping and there's nothing to say that they're not going to keep dropping or stay low. [LB670]

SENATOR HADLEY: Thank you. [LB670]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 07, 2014

---

JAREL VINDUSKA: Okay. Thank you. [LB670]

SENATOR HADLEY: Next opponent...proponent, sorry, proponent. [LB670]

JOHN KNAPP: (Exhibit 2) John...my name is John Knapp, J-o-h-n K-n-a-p-p. I'm testifying...I'm from Sarpy County also. I'm testifying on behalf of the Sarpy County Farm Bureau. And to give an idea, he was talking about the income and that, actually in 2007 income started going down. I sell my...I'm probably not as modern as a lot of farmers, but I sell on a cash basis. I do not play the futures market. And so the price of corn started coming down last year. Two years ago or early last year, corn was selling for \$7.60 a bushel. Right now it's about \$4.30 a bushel, so we've got probably a 60 percent cut in income. We have...I'm not going to read all this, just save time. We have concern over the huge increase in property tax burdens that our members have been subjected to in the past five to six years in Sarpy County. Any overhaul of our state tax code must include some form of property tax relief for farmers and landowners. Property taxes on an average, 160-acre, Sarpy County farm has gone up from \$3,782 in 2008 to \$9,297 in 2013. This is a 146 percent increase. The increase from 2004 to the present is 267 percent. At the same time, well, I just...the...at the same time, income from this property has gone up approximately 38 percent over that time frame. Agricultural land taxes now represent more than 25 percent to 30 percent of a farm's rental value. We know of no other income-producing property that is taxed at close to this rate. Even more alarming is the fact that income is beginning to drop rapidly. And the other issue is in Sarpy County the farmland area, and this is also the case in other urban areas like Douglas and Lancaster County, agricultural land value is a very small percentage of the total taxable property base. In Sarpy County, agricultural land represents less than 2.4 percent of the total tax base. In many counties, agricultural land is up to 50 percent to 60 percent. While valuation increases certainly result in a tax shift to agriculture in these areas, there's at least some hope of a partial offset in their mill levies being reduced. In more populous counties, like Douglas, Lancaster, and Sarpy, there is no such potential offset. Whatever percentage our valuation goes up is the percentage that our taxes go up. This is particularly true since we share a common levy that represents 60 percent of our tax bill with the Omaha School System through the Learning Committee. This is grossly unfair and represents a threat to the economic well-being of future rural landowners in Sarpy County. And our school district loses between \$1 million and \$2 million to the Omaha School District, but we're considered a rich county by the state formula and so we are not offset as much by state taxes. And I guess that's the basis of most of my comments. [LB670]

SENATOR HADLEY: Mr. Knapp, I'm...since you've come from Sarpy County, it's 2.4 percent, a question I have is that I've been concerned, after I read this and been thinking about it, of picking winners and losers depending on which county you happen to live in and what percentage of the county is agriculture versus nonagriculture. And

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 07, 2014

---

you're living in Sarpy County, that's 2.4 percent of the county is agriculture. And we have some counties it's 70 percent. So I would guess in Sarpy County, if we enact this bill, the other...all the taxing units in Sarpy County aren't going to be significantly impacted by this bill, because the ag valuation is only 2.4 percent of the county. Yet a county maybe out west, where it's 70 percent or 80 percent of the tax valuation, the only place those taxing areas have to go to is to raise their levy. Does that make sense, that if there's X dollars out west and ag is paying 70 percent of that total right now, how do the tax...how do the schools, the county, and everything else generate the funds to keep going? [LB670]

JOHN KNAPP: Well, I...and all I know, I can't talk for the other counties, when you're paying...when you were...in 2004, I was paying \$2,532 in taxes, and now, on a 160-acre farm, and now I'm paying \$9,297. And I would say...and our school just tried to pass a \$36 million bond issue and they always talk about it only raises \$100 per household or \$100,000, I mean. Well, they don't look at in my county, as Jarel mentioned earlier, our assessor is still assessing the \$62,000 under the house, even though the Legislature passed some bill that says that this acre under the house is supposed to be valued at one...or based on sales and not a comparison to a subdivision acre. And so we get hit with another \$60,000 right there. Well, last year our county board went with the referee and so we got the value of the land, which is around \$7,000 an acre, under our house for the people that protested. There's only 45 people protested. There's 850 farms, farmers in Sarpy County or acreages, and my guess is that he didn't want to risk losing that by going to court. But we have to prove to the TERC Board that our...this value is...and where do you get the value? You don't...I can't sell it. All I can do is sell my 160-acre farm. And so this stuff all adds up on us and I guess, since I'm...we're only 850 farmers, I don't know how many are in Lancaster and Douglas County, the state just chalks us off as well. We got to...we can't...we just...so you guys go up 267 percent over ten years. [LB670]

SENATOR HADLEY: Okay. Any other questions? Thank you. We appreciate you coming down to testify. Next proponent. Seeing none, we will now go to the opponents on LB670. [LB670]

RENEE FRY: (Exhibit 3 and 4) Good afternoon, Chairman Hadley and members of the Revenue Committee. My name is Renee Fry, and I'm the executive director of OpenSky Policy Institute. I am going to testify today on both of the bills or I'm testifying now on both of the bills. [LB670]

SENATOR HADLEY: That's good. [LB670]

RENEE FRY: We are very sympathetic about the increased property taxes being paid by agricultural landowners, but, based on our analysis, we don't believe LB670 and LB813 are the most effective way to address this issue. Furthermore, in some

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 07, 2014

---

communities these bills will likely increase property taxes for many residential and commercial landowners. We believe there are better solutions and, therefore, oppose LB670 and LB813. Based on 2012 property tax data from the Department of Revenue, once fully implemented, there would be a \$102.5 million shortfall resulting from these bills, including \$68.2 million for K-12 schools, \$21.9 million for counties, and \$6.2 million for community colleges. Current law would call for \$29.5 million more in state aid, but that funding is not guaranteed and would not be triggered until the second year after valuations were decreased. The fiscal note, based on 2013 data that we don't have, increases the shortfall for schools to \$77.6 million and increases the state aid offset to \$30.1 million. Even if the state funds the school aid increase, it would cover less than half of K-12 schools' lost revenues, and counties, community colleges, and other local entities would not be helped at all. We find reducing valuation of ag land from 75 percent to 65 percent of market value will provide the greatest benefit to agricultural landowners with property adjacent to urban areas, which, Senator Hadley, you raised just before, where the taxes can essentially be shifted from the agricultural landowners to residential and commercial property owners. Residents and commercial property owners in Lincoln and Omaha may see their property taxes increase, but because there is so little agricultural land, any increase is likely to be very small. In communities like North Platte and Kearney, where there is much more agricultural land adjacent to urban areas, the taxes for these agricultural landowners will come at the expense of increased taxes on residential and commercial property owners or significant cuts to education, roads, and public safety. In predominantly rural areas, where there is little residential and commercial property to shift the property tax burden to, these bills will cause significant cuts to education and other local services or will require levy increases to offset the loss of revenue. In this case, the levy increases are likely to wipe out much, if any, tax cut for agricultural landowners. If state aid to schools is increased as current law would allow or would require in response to the reduction in agricultural land valuation, property tax levy rates across the state would have to increase an average of 4.5 cents to avoid service cuts, and at least 14 counties would be pushed over their levy limits. If state aid to schools is not increased and levies are increased to avoid service cuts, levies across the state would have to increase an average of 6.3 cents, including 17.3 cents in the most agricultural parts of the state. More than 100 school districts would be pushed over their levy limits. With or without the state aid increase, avoiding cuts to education, public safety, and other local services would require property tax increases on all residential and commercial property owners. So at the end of the day, these bills will either shift taxes to residential and commercial taxpayers in many parts of the state, or will result in significant cuts to important services, like education and public safety. So herein lies the challenge with tax reform that you all are too familiar with. How do we reform the tax code in a revenue-neutral manner without shifting taxes? Well, as you know, we don't. So in this case, is there a justifiable reason for the tax shift? We don't think so. The agricultural circuit breaker, homestead exempt expansion, low-income credit--these are all very targeted based on income. Unfortunately, reducing agricultural land valuation will not help all agricultural landowners who have seen their

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 07, 2014

---

valuations go up, nor will it help with those who have the least ability to pay. It helps primarily those living adjacent to urban areas, which doesn't seem to be a very good public policy. Now we do think that there would be merit to reducing ag land value for the purposes of TEEOSA, if state aid is increased to make up for the revenue loss, as required by the formula. This would reduce the number of unequalized schools, helping those school districts that have fallen out of equalization in recent years due to rising ag land values. Based on FY '13 school funding data, which uses 2011 property tax data, the change would have brought 21 school districts back into equalization. And unlike the Property Tax Credit program, it would target the aid to areas with relatively high levies: 160 districts would benefit, 152 of which had levies of at least 95 cents. It would also target aid to districts with agricultural land without shifting taxes onto other homeowners and businesses in those areas, as would happen under these bills. And I will skip ahead. Thank you for your time. (Laugh) [LB670]

SENATOR HADLEY: Well, I want you...go ahead and finish your thought. [LB670]

RENEE FRY: Is that okay? [LB670]

SENATOR HADLEY: Yeah. [LB670]

RENEE FRY: Okay. [LB670]

SENATOR HADLEY: Yes. [LB670]

RENEE FRY: Thank you. So, and unlike these bills, it would not result in a loss of revenue for schools, community colleges, counties, and other local governments. If state aid is not increased, however, and the state raised the local effort rate to keep total amount of state aid from increasing, the same schools would receive equalization aid, but the changes would redistribute aid from more urban schools to more rural schools. For example, the Learning Community would lose about \$11.7 million and Lincoln Public Schools would lose about \$4.2 million. And 15 other school districts, urban school districts, would lose equalization aid, and the changes would not bring any nonequalized districts into equalization without the additional state aid. So we do recommend this change with the caveat that the additional state aid be...that required under current law be provided. So thank you for your time. I'd be happy to answer any questions. [LB670]

SENATOR HADLEY: Are there questions for...? Senator Schumacher and then Senator Sullivan. [LB670]

SENATOR SCHUMACHER: Thank you, Senator Hadley. Thank you for your testimony today, Renee. For there to be additional state aid to offset the...any property tax adjustments, how can we do that unless we increase our state taxation? [LB670]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 07, 2014

---

RENEE FRY: No, it's an excellent point. I will be testifying on Senator Dubas' bill, which we do think is...although in a neutral capacity because of the fiscal note, because we think that that's a better mechanism to address ag land valuations. But we would recommend that we use the Property Tax Credit Program for that funding. And I would see that as a solution to provide the state aid, get it to the folks in those districts that need it the most, and that would be a way to do it, where you could actually bring more schools back into equalization. But that would be the only revenue source that I can think of to do that. [LB670]

SENATOR SCHUMACHER: Thank you. [LB670]

SENATOR HADLEY: Senator Sullivan. [LB670]

SENATOR SULLIVAN: Thank you, Senator Hadley. Thank you, Ms. Fry. Are you concerned at all about the constitutionality of separating out taxation on ag land value just for purposes of state aid to schools? [LB670]

RENEE FRY: So my suggestion was to reduce ag land value for the purposes of TEEOSA. [LB670]

SENATOR SULLIVAN: Exactly. [LB670]

RENEE FRY: Right. I guess I haven't thought of it. [LB670]

SENATOR SULLIVAN: Well, you're separate...you're reducing it just for the specific purpose of state aid to schools. [LB670]

RENEE FRY: Right. I have to look at that. I'm sorry, I haven't. [LB670]

SENATOR SULLIVAN: Okay. [LB670]

RENEE FRY: It's an excellent question. [LB670]

SENATOR SULLIVAN: Okay. And then the other thing is any thought to are we asking the wrong question? It's not so how we value...or tax ag land but how we value it, how we assess it. Should we be asking that question and perhaps changing our thinking about that? [LB670]

RENEE FRY: So are you asking in terms of use value instead of market value? [LB670]

SENATOR SULLIVAN: Uh-huh. Uh-huh. [LB670]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 07, 2014

---

RENEE FRY: So we've looked at this issue as well and it was...we've talked to Professor Anderson, who spoke with you over the summer and he's done some pretty extensive research on market value versus use value. And his research finds that it really...it's more at the level that it's set at rather than whether you're using use value or market value. So he finds that it doesn't have much of an impact other than in sort of the greenbelt areas. And so his position is that market value is actually a better approach. Other than that, we haven't done any independent analysis but have had conversations with him about whether we should be looking at that, and he advised against it. And we haven't really gone much further than that. I will tell you, in conversations that I have had with some folks, particularly in Senator Davis' district--I had a pretty extensive conversation with a rancher in his district--and it seemed like a lot of the concerns were coming from assessment practices, and it wasn't really so much the percentage that ag was valued at but it was the lack of comparables for his particular land. And I've heard that before as well. And I think Senator Christensen maybe has some legislation to look at changing those, at least for certain types of agricultural land. But so that's an area where I think, at least in the conversation that really struck me, that it was assessment practices and the lack of comparables that were really the issue, at least in that district. And I think that warrants more review. [LB670]

SENATOR SULLIVAN: Thank you. [LB670]

SENATOR HADLEY: Ms. Fry, I'll ask you the same question that I asked Mr. Knapp. I think good tax policy tries not to pick winners and losers. Sarpy County, I believe the figure was like 2 percent of it was ag land. And we have other counties where that might be 60 percent, 70 percent, 80 percent. It would seem to me that in a county where it's 2 percent to 3 percent, the chances of the mill levy going up just because of going from 75 percent to 65 percent on 2 percent of their valuation would be quite small, versus a county where it's 70 percent or 80 percent land, of ag land, where the taxing districts have no place else to go. So those particular farmers may not see any tax relief because there's no place else to go to fund the local units. Is that a fair statement or...? [LB670]

RENEE FRY: Yeah, absolutely, and it's a concern for us because you're absolutely right, where the farmland is located under this bill will dictate really what the impact is. But you're right. In Sarpy County, Douglas County, Lancaster County there will be very little impact because it can be spread broadly. But in those highly agricultural areas where you have, you know, less than 25 percent ag land, you're going to see 17.3-cent levy increase to have to make up the difference, so. [LB670]

SENATOR HADLEY: Okay. As Senator McCoy said, there's bills in the Appropriations Committee that deal with the Property Tax Credit Relief Fund. [LB670]

RENEE FRY: Uh-huh. [LB670]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 07, 2014

---

SENATOR HADLEY: And we have nothing to do with that here. [LB670]

RENEE FRY: Right. [LB670]

SENATOR HADLEY: What is your thoughts on tax...property tax relief by using the Property Tax Credit Relief Fund versus going 75 percent to 65 percent on ag land, which we're dealing with here? Which...do you have thoughts about which one might be fairer or which one...? [LB670]

RENEE FRY: So part of the concern we have about this bill is that it makes a permanent change that would be difficult to undo. And what we're seeing, we're seeing historic rises in agricultural land, no doubt about it. But if that trend reverses, then residential and commercial landowners are going to end up picking up even more of the bill. So if you use the Property Tax Credit and you're able to direct some of that funding to those with those rising values, you can do it in a more temporary manner and I think it's a lot more...a better way of handling it, definitely. So part of our concern is the permanency. When we saw ag land values increase in the '70s and '80s, that was over about a ten-year time span, and then they fell back down to prior levels. Obviously, I can't predict the future. I don't know if that will happen. In this case, the climb has been much higher than it was in that former time period. But should those levels fall back, we are going to see a significant shift in taxes in the rate for homeowners and commercial owners. So I think what we can do on a temporary basis where we have some flexibility would be the best way to address the situation. [LB670]

SENATOR HADLEY: Thank you. Senator Schumacher. [LB670]

SENATOR SCHUMACHER: Thank you, Senator Hadley. Earlier in the testimony on this bill, the suggestion was made that a large part of the funding or the offsetting that would have to take place because of the loss in revenue could come from a ratcheting down over three years in local spending because this measure would put significant pressure on local government to ratchet their spending down, become more efficient. In your studying of responses to tax policy changes in the other states, has such a ratcheting down ever occurred or been successful? [LB670]

RENEE FRY: Usually, I mean the impact is that you really tie the hands of local government when you do that. You know, whether you do it over a two-year time span or a five-year time span, at the end of the day the result is the same. And, you know, there are certainly things that local government can do to become more efficient and we always...and state government can do to become more efficient, and we should always be striving to find those efficiencies. But I don't see that those come out of actually a reduction in revenue but more of a future strategic planning for the future, like what you're doing with the legislative Planning Committee, what the Legislature is doing with

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 07, 2014

---

the legislative Planning Committee. So what we've seen is when you make those changes when you're implementing caps or those sorts of things, in the long-run you end up just...you have to cut those services or raise property taxes. I don't think the result is going to be any different, whether it's two years or five years or ten years. You're going to see the same result at the end of the day. [LB670]

SENATOR SCHUMACHER: Thank you. [LB670]

SENATOR HADLEY: Thank you, Ms. Fry. We appreciate your coming. [LB670]

RENEE FRY: Thank you very much. [LB670]

SENATOR HADLEY: Next in the opposition, I believe we're... [LB670]

LARRY DIX: (Exhibits 5 and 6) Good afternoon, Senator Hadley, members of the Revenue Committee. My name is Larry Dix, L-a-r-r-y D-i-x. I'm here representing the Nebraska Association of County Officials today in opposition to LB670. And I believe I'll get through this in five minutes, some of the questions I know that I'll touch on. Senator Hadley, you had had a couple that I want to make sure we get into great detail on one of the handout discussions about the tax shifting, and so I'll go through that handout if I can get that question asked. And then the other handout that's going around is actually the tax rates, and some of that goes to Senator McCoy's questions of what's going on with the local government. When we look at this LB670, I would give people the benefit of the doubt when they say this is a tax relief bill. It's certainly a tax relief bill for a certain segment. But in reality, it is a tax shift bill. Nothing in this bill really forces property tax asking to change, and when you do not alter property tax asking and you reduce one segment of the population paying the tax, you are going to shift it to another component. And we're going to talk about that and we'll provide examples of that. I, no doubt, I would agree with Senator McCoy that this is a very complicated, complicated matter. And it's hard to find the right balance, because that's what I think we're all going to have to look at. As we go through the tax policy debate and we look at all the different bills, we've got to figure out a way to strike a balance. Counties, above all, understand and hear the complaints about property tax relief. Those complaints come to county boards. They come every year. Fortunately or unfortunately, we happen to be the entity that sends out the property tax statements, so the requests, the complaints, come back. We happen to be the entities that hear the county property tax protests. So we are very intuitive to the property tax situations that go on. One of the things that I want to call your attention to is the sheet that is highlighted in yellow, and a number of folks have said, you know, my value continues to climb, my value continues to climb. Well, what I would point out and what I'm pointing out on this sheet, and as everybody sort of looks and finds their county you will see, and this is just the county portion of the tax rate, you will see that 84 out of the 93 counties last year either reduced or left their tax rate exactly where it was. So when I hear, I believe from NACO's perspective and from

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 07, 2014

---

county government's perspective, there's a realization of what's going on with valuation. And in a perfect world, your value goes up, you submit the budget, your levy goes down. And that is what we would see in a perfect world. And I've got to tell you, I've charted this for a number of years. And 84 out of 93 is pretty doggone good, let's face it. We would look at any of the other political subdivisions and hopefully we're seeing similar reductions like that. Some of these are significant. When you look at...well, let's just go to the bottom of the page. Hayes County reduced 11 cents. Now that, in my mind, is a significant reduction. And so I'll be happy to answer any questions that people have on that. One of the other questions was about, well, what do we do? What do we do? How do we...you know, I hear it so many times, it's frustrating, is that at the state level we don't have anything to do with local property tax; that's always a local, local issue. Well, I got to tell you, I can chart the votes of senators that voted for unfunded mandates that pushed counties...pushed costs down to counties in the recent years. And you can talk all you want about reduction of the budgets at the local level, but until we stop the unfunded mandates' flow down to the counties there, it's virtually impossible. The cuts happened when we lost state aid. When we lost state aid, the cuts were made and that's what happened at that level to the point where the significant cuts, they are there...they're no longer there. Counties only, I tell you, counties are...at some times we want to say counties are partners with the state. Counties should be partners with the state. But the unfunded mandates have got to stop. If we're truly partners, we would look to fund those. We would look to take an examination of those unfunded mandates and what do we do with those. So the other handout that I have--which I'll run out of time but I believe somebody will ask the question--will explain shifts in counties where maybe there is no place for the money to go, where there's no place to shift it. I've got an example of Grant County, I have an example of Buffalo County, and I have an example of Banner County, and those are three very, very different counties across the state. And so you're going to see what happens in those three counties. So if somebody cares to ask that question, that's fine. I'll end my testimony and I'd be happy to answer any questions anyone would have. [LB670]

SENATOR HADLEY: Mr. Dix, since you gave us these counties, I won't ask about those. How about a county--where did I see one here--Deuel County? [LB670]

LARRY DIX: Deuel County. [LB670]

SENATOR HADLEY: The levy at 51 cents. Is that... [LB670]

LARRY DIX: Yes. [LB670]

SENATOR HADLEY: ...correct? [LB670]

LARRY DIX: Yes. [LB670]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 07, 2014

---

SENATOR HADLEY: So if...and I would guess that's a reasonably agriculturally dependent county? [LB670]

LARRY DIX: That is. [LB670]

SENATOR HADLEY: So if we go from 75 percent to 65 percent, the county is at 51 cents, that has to be even a little bit over. [LB670]

LARRY DIX: It is. It's a little bit over. Constitutionally, we have a 50-cent limit In Deuel County. There has probably been a vote of the people to exceed that or a county hospital that's included in that levy. A county like Deuel County is more than between the rock and the hard place. They are to a point where they would cut services and they would be...probably someone would sue them because the services that they have to provide are required by state law. So that is between a rock and a hard...there is nowhere, nowhere for those counties to go. The only place that those counties can do is to come back and beg to the Legislature to say, remove some of the unfunded mandates, remove some of our requirements to provide services, or we start closing roads, we start...we no longer repair bridges. Those are fundamentally the decisions that have to be made in those counties. So Deuel County is one of those, if you were to analyze it, Deuel County probably is one of those that are probably 60-plus percent reliant on agricultural...the tax base is agricultural. [LB670]

SENATOR HADLEY: Okay. So it would be you have some counties that literally have difficulty going anyplace. Cutting the services is literally the only option. [LB670]

LARRY DIX: It really is. When you look at, you know, the handout, you know, just take a quick look at...well, let's look at Banner County. Banner County on this list, and this was provided by...this isn't information that NACO created. This is coming from Department of Revenue. Banner County, 68.88 percent of their tax base comes from agricultural land. They are sitting at .4716 for their tax rate. More importantly, that people don't always understand in this conversation, a majority of the people are coming up here and they're talking about the exponential increase in agricultural land. These are typically row crop counties. When I look at Banner County, that's predominantly a grassland county. We have some counties right now that grassland over the last couple of years in their county, the assessed value of grassland has actually decreased. And so now you move...and again, it goes back to Senator McCoy's complication. When you move all agricultural land, now you have some impact on some grassland that may actually be going in the wrong direction. So in Banner County, there's really nowhere to move to create a shift. Yeah, you're going to shift it to 9 percent of the residential value, not much room to shift. Banner County, I calculated, after the first two years, given the percent of increase they've been averaging, will be at .51 for a tax rate, which they cannot go that high. They can constitutionally go to .50. [LB670]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 07, 2014

---

SENATOR HADLEY: Okay. Other questions for Mr. Dix? Senator Hansen. [LB670]

SENATOR HANSEN: Thank you, Mr. Chairman. I'm reluctant to ask any questions on these first two bills, but I do have to. We're talking about Banner County. So the difference between 2012 and 2013, according to the Nebraska Department of Revenue, irrigated acres went from \$17 million worth of valuation to \$25 million, a 46 percent increase. On their dryland value it went from \$36 million to \$48 million, or a 33 percent increase. And that's on a different list of papers probably. Now on your first handout, Keith County is at 32 cents; Lincoln, let's see, no, wait a minute. Yeah, Keith County is at 32 cents; Lancaster is at 28 cents; and Lincoln County is at 31 cents, almost 32 cents. And Lincoln County, my county, got a .003739 decrease. And with the valuation change, it's not going to look like that. My tax bill is going to be higher. I don't want to get into personal stuff. What my question is, Mr. Dix, and I asked you for it once before and we never got together to go over that list, the unfunded mandates. That is so important. Until we get that handled and this bill...neither one of these first two bills anyway addresses that. [LB670]

LARRY DIX: Uh-huh. [LB670]

SENATOR HANSEN: But I think this committee ought to see that list of unfunded mandates. [LB670]

LARRY DIX: Yeah. Well, and I'll give you one that's Lincoln County specific that will be fresh in your mind. Last year, LB561 passed. LB561 dealt with juveniles. I believe the last I heard from Lincoln County was there was a requirement for a budget increase of \$200,000 to fund that and that's...I mean that's \$200,000 and that hits right home. That's in Lincoln County. [LB670]

SENATOR HANSEN: That was a loophole in the law that never got fixed. [LB670]

LARRY DIX: Well, I mean the loophole, call it a loophole. It's, when it comes to the county budget, it's real money. [LB670]

SENATOR HANSEN: It's real money. Thank you. [LB670]

LARRY DIX: Yep. [LB670]

SENATOR HADLEY: Senator Schumacher. [LB670]

SENATOR SCHUMACHER: Thank you, Senator Hadley. And thank you for your testimony, Mr. Dix. In some of the testimony we heard in the Modernization Committee and reflected somewhat in some of the testimony today, the argument was made that because of the extreme inflation in land prices, the valuation went up. There wasn't an

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 07, 2014

---

offsetting decrease in the levy rate and there was a whole bunch more taxes collected, and those were not officially spent by the local government units. And that all this does is rolls back that clock some. Can local government, the counties and, from what you can tell, the cities and community colleges and NRDs basically adjust back the clock? [LB670]

LARRY DIX: Well, and I'll only speak to the counties because that's really my area of expertise. County budgets, I would say, in some way reflect a little bit of the state budget. And I don't follow the bottom line of the state budget, but over the years I don't know if...how much the state budget has decreased, nor do I know that the county budgets have decreased but we have seen an increase. And those increases come from things that all of us...all of us as citizens have increases. Gas, price of gas goes up. When you operate a county where you have law patrol, that people want their safety and you're driving cars 24/7, you're going to see an increase in county budgets. So over the last year, I think there's probably some information from Department of Revenue that would indicate that county budgets across the whole state probably increased about 4 percent. That's...I think that's fairly moderate given what the price of...the increase that is in the real world. And so I think the sheet that I handed out shows that some of that is reflected. We are seeing a reduction in tax rates. But to go back, it's very tough to go back. [LB670]

SENATOR SCHUMACHER: Thank you. [LB670]

SENATOR HADLEY: Mr. Dix, I'd just like to make a comment. I was privileged a week ago to be in Chicago at a meeting of fiscal leaders from the 14 Midwest states, and one of the topics we talked about which I found interesting was the state's role in helping distressed cities and counties, because Michigan was there with Detroit and, you know, those kinds of things. And I innocently made the comment that we had cut out all aid to cities and counties. And they all looked at me like, what? Because to a state, they still were giving significant aid to cities and counties. And when I said we had cut it all out, they were quite amazed that we had done that. [LB670]

LARRY DIX: Yeah. Senator Hadley, I, like you, have an opportunity to visit with counterparts from across the United States and it's quite shocking when they say, you get zero state aid, direct state aid that you can use? And I said, yeah, we do. Certainly, I remember the debate. I've been around long enough. A lot of senators came out to me and said, you know, Larry, we're in a tough situation, we need you to partner with us, we need you to accept this, and when times get better we'll put it back in place. Well, times are a little better. I will give that. I certainly would hope that everybody would take a look at Senator Karpisek's bill. It puts it back in place. I don't think there's been a whole lot of discussion or play on that. But it's one of those things that we have made the statements that we are sitting on a bundle of cash in the Reserve and I would certainly appreciate some of that coming back in the form of state aid. [LB670]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 07, 2014

---

SENATOR HADLEY: Thank you, Mr. Dix. Other questions? Thank you, Mr. Dix. The next opponent. [LB670]

RANDY LENHOFF: (Exhibit 7) Mr. Chairman, members of the committee, my name is Randy Lenhoff, and I'm CEO of Seldin Company in Omaha. We have properties across the state of Nebraska we manage. Actually, we're in about a seven-state region, manage about 12,000 apartments and several million square feet of commercial property. I grew up on a farm in rural Nebraska, and so the first part of my handout there is about Cedar County, Nebraska, and the price of ground and how it's going up, which I found interesting. My mother is up there. My brother still farms up there. And so she sends me the paper every week, so I caught that article. Thought it was interesting that, you know, the price of ground keeps going up. I work in investment property, investment real estate. I have for 30 years. And you know, the market drives the value and that's what happens, and happens in all sectors of real estate. Most of my background is apartments and commercial development and that sort of thing. And I think any time you take one sector of a class or different classes like this, but it's all real estate driven, and you say, well, this one is going to be taxed at 65 percent, everybody else is at 100 percent, it gets really difficult. And I think you start to create some unintended consequences, a lot of those things I've heard talked about here today. But we do business in Iowa, for instance, and in Iowa they lowered values to 65 percent on farm ground. They also did it on single-family homes. And it created such a mess over there, they're unwinding it now. And I can tell you that development in Iowa has been very difficult. They put TIFs on a cornfield over there. If you're familiar with Jordan Creek, for instance, in West Des Moines, that had a TIF on it to get that built. So it really starts to affect a lot of things when you start to do that, and you got to think about it a little bit and what the consequences are. The other thing that I know from being in outstate Nebraska, and we're in about 15 cities across the state or communities, I should say. I think the smallest is Gering, so we go across the state. A lot of our properties that we manage are affordable. Some of them are owned by nonprofits and that sort of thing. We really struggle on many of those properties--in fact I attached one here--to even make it work. We're involved in the development of a property in South Sioux City, Nebraska, and we're able to put it together with a nonprofit and there's no debt on that property. And yet, if you look at the last page, that property is losing \$20,000 a year on operating, just to operate, just to provide decent, safe, sanitary housing to low-income people. So I think you got to think about those sort of things that when you shift this and you do it in a county like that, that's going to shift more burden to those kind of properties and to people who live in houses in those communities who are now going to have to pick that up, because there is going to be some shift with this unless you do cut. Unless you either provide more state aid or you cut spending somehow, there is going to be a shift and it is going to have an impact. I agree with what somebody said. You know, I live in Omaha and that's where I've been for 25 years. I think the impact in Douglas County is not going to be felt very much. But I do

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 07, 2014

---

think outstate Nebraska it's going to have a significant impact. I'm just not sure this is very good policy. I think there's got to be a better way. I'm not saying farmers don't need some help. I understand the value of farm ground is going up. But I don't think this is the way to do it. Not sure I have all the solutions. Maybe it's more credits to those who are small farmers and that sort of thing. The other thing to keep in mind, you do have a lot of people, investors, who have money, have a lot of money to invest, and they're going out there and buying this ground. They're pushing the values up. They're doing it because they're getting a return. That's why they're doing it. Those values are going to probably continue to increase. You put this through, do you think those investors are going to necessarily quit buying? They'll probably push the values up even further in those counties because they're going to get better returns because they're going to...their taxes are going to go down so they're going to go, wow, our returns look pretty good; let's go ahead and, rather than paying \$10,000 an acre, let's pay \$12,000 an acre. Those are my thoughts on it. I'll be happy to take any questions. [LB670]

SENATOR HADLEY: Any questions for Mr. Seldin (sic)? Senator Schumacher. [LB670]

SENATOR SCHUMACHER: Thank you, Senator Hadley. Mr. Seldin (sic), you just mentioned that...what might be a core issue in this puzzle, and that is the inflation in land prices, of dramatically a steep rise in land prices. In your experience in real estate and investing in real estate, is there anything we should be doing to counter the inflation, any public policy, so that land prices come back down to the 2 percent? [LB670]

RANDY LENHOFF: That's part of being in a free-market society. I mean I see it on commercial property too. I mean you can drive around. We all are aware of properties that have failed. You know, in Omaha, Crossroads, I mean Crossroads got in financial trouble. So it happens commercial, it happens with apartments. I mean sometimes you got to let the market go where it will go, but it will adjust. And I think every time, you know, you try to fix it, you cause problems. I do think you have to look at, you know, should there be more state aid out there maybe to help the small farmers and that sort of thing. I don't know if the really large operators need a lot of help right now, from what I'm seeing, or the investors, but maybe there's a way to fix it that way. But I think anything else starts to get really, really difficult. And trying to control the market I think doesn't work. [LB670]

SENATOR SCHUMACHER: Some of the farmers might argue that their property is different from commercial property or even residential property because they never intend to sell it, intend to keep it in the family and intend to have one heir buy out the other heirs, even those other heirs may live out of state and take the profit and that wealth out of state with them. But it's different and they... [LB670]

RANDY LENHOFF: Well, I think each...I'm sorry. I didn't mean to interrupt. But I think

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 07, 2014

---

that's true of all classes. I mean someone has mentioned...like I own my single-family home. I know I'm not going to get any income off of it. It raises in value; I'm going to pay more in property taxes. Commercial property, it's income-driven. Farm property is income driven. I've got a brother who he's third-generation on the family farm, so we're over 100 years on that farm, and he decided not to grow, you know, not to farm more than 200 or 300 acres. So he took a job and he farms part-time now, and he's able to do that where my father wasn't able to. So things have changed out there. I think the economics have changed for farmers also. I think to survive today and be a full-time farmer, you probably have to farm more than 1,000 acres, at least in the area where I'm from. I can't speak for the whole state. But it's row crop, it's corn and beans. So I think you've got to look at all those things and take it into consideration. If you're going to try and preserve it so that small farmer can make it and make it on 160 acres, is that really what it's about? Or do you let the market drive where it goes? [LB670]

SENATOR SCHUMACHER: And from inference from your testimony, the bigger you are right now the less problem these property taxes are for you? [LB670]

RANDY LENHOFF: I would guess that's probably true, yes. [LB670]

SENATOR SCHUMACHER: Thank you. [LB670]

RANDY LENHOFF: Uh-huh. [LB670]

SENATOR HADLEY: Mr. Seldin (sic), one quick question. You have a number of properties across the state. Have you ever been successful with an assessor that you didn't make money on that property that year so you shouldn't have to pay property taxes or they should be lowered? [LB670]

RANDY LENHOFF: No. No, we've had to go back to investors and ask them to pay in. And I do...I think you really need to have to, and one of the things I probably...maybe I by, that you do have to keep in mind. There are a lot of people living in these small communities. Like I'm from around Randolph, Nebraska, where my mother lives. I drive through that town and there's, I'd say, over half of the housing stock is probably substandard compared to what we would consider is adequate. And so you're going to shift more burden to those people living in those houses who probably don't make as much money as...well, they don't make a lot of money in those rural communities. I just don't know how that's going to work. And I think you've heard quite a bit on that, but it's a real problem I think. [LB670]

SENATOR HADLEY: Thank you, Mr. Seldin (sic). [LB670]

RANDY LENHOFF: Yeah. Thank you. [LB670]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 07, 2014

---

SENATOR HADLEY: Next opponent. Seeing none, we will go to neutral. [LB670]

JON HABBEN: Good afternoon, Senator Hadley, members of the committee. My name is Jon, J-o-n, Habben, H-a-b-b-e-n, and I'm executive director of Nebraska Rural Community Schools Association. One of the startling figures that has us testifying neutral is if you take a look from 2008-2009 and you draw a line, equalization aid paid out in 2008-09 straight across, and in each vertical column you put a year, '09-10, '10-11, '11-12. What you find out is that in the C and D and a number of the B schools in Nebraska there's been, I don't know if you want to call it an exodus, a flow, but certainly there is over \$195 million less in equalization paid out to school districts. Now the reason I mention that is because on the one hand we get tempted to be on the proponent side of this bill and Senator Hansen's bill because we say to ourselves, oh, my gosh. All of those local taxpayers paid that \$195-plus million and that was just to keep their budgets at an '08-09 level for the next six years. So, of course, we should be worried about this incredible growth in the amount of taxes paid across rural Nebraska, particularly by ag land owners. Well, then I go to the other side. Gosh, I almost feel like we have to testify against this bill because as school districts if a resource is decreased, removed, however one wants to describe it, so how does the school district keep doing its job? How does the school district continue to make the effort that not only its patrons but its postsecondary education institutions and the state of Nebraska and now the federal government expect it to do? Where does that money come from? It would be great if we could have the discussion, and I know you've spent months on this, having that discussion about this three-legged stool that's been referred to. How do you deal with one in isolation? Well, you probably can't. If you pull this out from school districts, here's what happens. The nonequalized school district of which there's 114 this year, probably go up another 10 next year, but if you remove that or reduce it to the nonequalized school districts, they're looking around saying, so where do I get this money? Where do I fill that bucket back up? And the dilemma is they have no place to go, because the only place they had to go in the first place was to property tax. If you go to an equalized district, they're hoping that equalization is dramatically increased so they get some. But as levies, or excuse me, as valuations go up in those school districts, what happens to the state aid they're hoping for? It flows away from them. So now you've got nonequalized school districts and equalized school districts wondering what on earth are we going to do if we have a reduced revenue stream from the property tax. Totally understand the reason for the interest in doing so. That \$195 million is real money. From a school district perspective, how do we keep the school district doing what the desires are to have the school district do? We're not going backwards on roads and bridges. We're not going backwards on all kinds of other services. I can't imagine we want to go backwards on education. So how does this three-legged stool deal with this, because in isolation it's likely not going to work. [LB670]

SENATOR HADLEY: Are there questions for Mr. Habben? Senator Sullivan. [LB670]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 07, 2014

---

SENATOR SULLIVAN: Thank you, Senator Hadley. Thank you for your comments, Jon. [LB670]

JON HABBEN: Sure. [LB670]

SENATOR SULLIVAN: If we can agree that, as we heard at the tax hearings and the Education hearings, that there is a desire to retain value in education and we want the state to put in more money for state aid and we determine a way to do that, what's on the other side of the equation that we can do, whether it's through the TEEOSA formula or someplace else, to really then exact property tax relief? [LB670]

JON HABBEN: That is as tough a question as you've all been dealing with. Trying to get a property tax relief that's real dollars, I mean not just we're going to lower the levy and tax you more, but in real dollars, you end up having to come up with either the budget gets reduced, you're cutting something, several things, many things, one thing deeply, you're doing that. On the other hand, you're coming up with another source of revenue. That keeps the system in balance. The problem is we haven't identified the other source of revenue. So we're back to the property tax piece then. If a district has...is able to access additional property tax through maybe its levy is a little lower so there's a little room to...if you reduce it, it's probably going to go back up because there's no place else to go. And I don't know, Senator Sullivan, of how that balances. Can I suggest Internet sales tax? But outside of that, I don't know where the balance is. I really don't. Because when you take a look at what valuation has done across all of our counties, if you were to take, let's say 85 counties, rural counties generally, and say, well, valuation for ag land did the same thing in all those counties, well, you know it didn't. It went up at different rates at different times in different places. And so there's not a real smooth way to look at this because a school district in this circumstance a year later is this school district in a different circumstance. And that maybe can be said for counties or NRDs or anybody else for that matter. But I don't know where the balance comes from. [LB670]

SENATOR SULLIVAN: Well, but what if we, best-case scenario, we identified a source at the state to put additional state aid into education? What can we do on the other end to ensure then the end result is in fact a lessening of the property tax burden? [LB670]

JON HABBEN: Well, part of the problem is if the money is injected strictly into TEEOSA then equalized districts have a chance to receive some money and the other hundred and however many don't. So unless TEEOSA has some kind of a component in it that goes to nonequalized districts, you can't get to property tax in those nonequalized districts. There's no way to do it. The only offset is exactly that. I don't know. You know, we shun the word "foundation," but some kind of categorical something has to occur across those nonequalized districts. [LB670]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 07, 2014

---

SENATOR SULLIVAN: Thank you. [LB670]

SENATOR HADLEY: Senator Schumacher. [LB670]

SENATOR SCHUMACHER: Thank you, Senator Hadley. Thank you for your testimony today. I think we've identified over the course of the last several months the core of the problem with property taxes is the rapid increase in agricultural real estate. And that has been the fuel that brought in additional tax money, which has permitted additional spending or at least maintenance of spending in local government. What would the schools have done had the farmers not bid up the price of land so high, had land only appreciated at a reasonable level? [LB670]

JON HABBEN: Well, I think first of all if you go back to '08-09, there might still only be 45 nonequalized school districts. There would be that many districts still participating on the equalized side of the state aid formula. Those other 45 districts, for a variety of circumstances, their levies are just low enough that probably never could become equalized, even if we went back to '08-09. The dilemma that a school district has is the same as any other political subdivision--sit down, take a look at your resources and your revenues, try to anticipate, and see what happens. And as you go through that process, school districts have made cuts. If you go back to prior to the significant increases in valuation into the late '90s and early 2000s, lots of reductions made in school districts all over the state. They were fighting total valuations that at times were flat in their district or maybe only a 1 percent increase, just as they were dealing with reductions in state aid, equalized aid for maybe their student population was declining, which is probably the easiest one to look at. And those districts were fighting this all through that period of time. My guess is, had valuations only gone up 4 percent a year or something like that, that it would have been the same issue repeated year after year clear through to today. Now the interesting thing, Senator, is that across this period of time school districts have been limited on their expenditure side. And the school district that is not equalized has the same expenditure limits as the school district that is barely equalized or the school district that is heavily equalized. So even though you have that revenue that appears to be out there, you're still only going to tax to a certain point because that's as far as you can go on your expenditure side. But if your revenues don't support what you want to do, you're backing up. I mean that's just what happens. And I should say, should add one of the ways you back up is to start chewing into your necessary cash reserve. And you keep doing that without putting money back into it and pretty soon you don't have enough necessary cash reserve to avoid the down months in tax collections which sends you to the bank, so on and so forth. [LB670]

SENATOR HADLEY: Thank you. Any other questions for Mr. Habben? Thank you. We appreciate it. [LB670]

JON HABBEN: You're welcome. [LB670]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 07, 2014

---

SENATOR HADLEY: Next neutral. [LB670]

JOHN BONAIUTO: (Exhibit 8) Senator Hadley, members of the committee, John, J-o-h-n, Bonaiuto, B-o-n-a-i-u-t-o, representing the Nebraska Association of School Boards, Nebraska Council of School Administrators. You have a letter that I have submitted that has my thoughts... [LB670]

SENATOR HADLEY: Yes. [LB670]

JOHN BONAIUTO: ...on both bills, and I'm not going to read the letter. But it really covers many of the issues that Dr. Habben had talked about. We believe there will be winners and losers in both of these bills, not just winners and losers for school districts, but winners and losers for taxpayers. And depending on what the situation is, as Jon described with districts, K-12 public education follows a tax policy that this body created; and we depend on you to be very deliberate, as you're doing right now, to find that balance, which is not easy, and we will follow the tax policy that you give us to work with. But when we talk about making adjustments like this that schools look for efficiencies, I can tell you the districts that are going to be most impacted are doing everything right now that they can to follow Rule 10 just to maintain their accreditation. And there are no efficiencies really in those districts if they want to maintain their accreditation and serve the students that they are charged with serving. And so I think that in public education when you look for efficiencies you do it in some districts, really in all districts I think, at the expense of the students. But with that, I want to just say the two associations have reservations. We've testified on this type of legislation in every position: proponent, opponent, today it's neutral. We've never been right since we started testifying. We don't intend to be right today. (Laughter) But why should we start a trend? But we do depend on your deliberation and your careful consideration in looking at what we have to work with. Thank you. [LB670]

SENATOR HADLEY: Any questions for Mr. Bonaiuto? Thank you, Dr. Bonaiuto. [LB670]

JOHN BONAIUTO: Thank you. [LB670]

SENATOR HADLEY: Next neutral. [LB670]

GREG BARNES: (Exhibit 9) Good afternoon, Senator Hadley and the rest of the committee. My name is Greg Barnes, G-r-e-g B-a-r-n-e-s. I'm the superintendent of Seward Public Schools and also here representing STANCE, which is an organization of medium-size school districts across the state of Nebraska. I don't know that I can add a great deal to the testimony that you've already heard. I guess our main reason for being here today is to express concern that people are going to be misled by the 10 percent language within these bills, thinking that if we reduce ag land values by 10

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 07, 2014

---

percent we're going to see a 10 percent reduction in ag land taxes. And we really don't feel that's going to be the case. When we look across the state, we're so diverse. And that's why whenever we talk about what's equitable and what's fair, and I attended those tax reform hearings and TEEOSA hearings just like you guys did and listened to the discussion, and we all want to see reductions. But what are we going to live without to make that happen? That always becomes the most difficult part. But when you look at the TEEOSA formula in our state, it's very simple if you keep it simple. You have a needs side; you have a resources side. Okay? The formula determines what our needs are for the state and for every school district individually within that state. Okay? Over here, what can you generate for resources locally? And then the difference is made up with equalization aid which comes from the state. We know that. Well, in the last few years we've seen the ag values increase on the resource side to the point in some districts, including my own, Seward, the resources have outpaced our needs growth. Our enrollment has gone up so our needs have grown, but our resources have gone up more significantly so now we're a nonequalized district. In other schools, you'll see the enrollment decline and so their needs might have leveled off. And then you've seen the large increases in ag land valuation here, so again no equalization aid. In the rural districts, rural Nebraska, in almost all instances, including Seward, we've been able to reduce our levy because our budget needs are such that we don't need to keep it at the maximum because our valuations have grown. I call that responsible budgeting. Just because we can max out, we haven't. Okay? And that's happening all across Nebraska in many communities, many school districts. If you see that valuation decline 10 percent in the ag land values, in most of those school districts, unless they've got a lot of fat in their budget to cut, they're going to increase the levy to offset that. And you're going to see a slight shift in those districts where you have large ag land values to residential and to commercial real estate. But it's going to be in the neighborhood of 1, 2, 3 percent savings to the ag land taxes that go to schools. It's not going to be 10 percent. In the areas that are less significantly...have less ag land values, more commercial and residential, I think the shift will be greater than that. The other thing to keep in mind, and I couldn't hear all the testimony. As I get older, my ears don't work like they used to. But OpenSky shared some numbers with you in terms of the state impact I think with the budget. But within TEEOSA, it's the same thing statewide. You're paying equalization aid based on this difference. If you reduce ag land values, it's going to impact equalization aid, and the state is going to have to be ready to step up to the plate. What scares me, we all know that if your budget is here and TEEOSA is calling for here, what we've tended to do is change another factor within that formula so that we don't exceed the budget. That's going to impact every school district in the state potentially whether they've got ag land values or not, any ag land in their district. And so, you know, it's a concern I think. We're all for property tax relief. We would love to see our farming friends, including my parents who own a farm up by Ord, Nebraska, see some tax relief because we know we've seen those increases. I just, you know, our organization just doesn't believe that this is going to provide the relief that ag people are expecting.

[LB670]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 07, 2014

---

SENATOR HADLEY: Are there questions? Seeing none, thank you very much. [LB670]

GREG BARNES: Thank you. [LB670]

SENATOR HADLEY: Next person in the neutral. [LB670]

DENNIS BAACK: (Exhibit 10) Senator Hadley and members of the Revenue Committee, for the record my name is Dennis Baack, D-e-n-n-i-s B-a-a-c-k. I'm the executive director for Nebraska Community College Association, here to testify in a neutral capacity on both LB670 and LB813. My board certainly has concerns and my colleges certainly have concerns with when we start talking about valuation increases or decreases. We didn't take official stands on these, but they felt that it was necessary for me to at least show you what happens to community colleges if you change the ag land values and what the impact is on each of the different colleges across the state. And I think as you look at that chart you'll see that, you know, when you get to the Metro Community College you don't see very much change in their budget. They don't see much of a loss because theirs is only 4.32 percent of their property is ag land. But when you get up to Northeast Community College, you have 62 percent of theirs is ag land of their valuation. So you'll see some big fluctuations in how this impacts their areas. And, Senator Schumacher, I am old enough, unfortunately, and have been around this long enough that in '92 I was not on the Revenue Committee, but I was the Speaker of the Legislature, we lowered the ag land value. And when we did that, I do remember that in the next budget cycle the state did put more money into state aid to schools. They put more money into state aid to community colleges and a number of the other entities to make up for some of those losses that they had. And the same thing happened when they did it in 2007. I was at this job in 2007, and we did get an input of funding into it. But the difficulty sometimes come, and Senator Sullivan certainly knows this, the difficulty comes in, how does the formula distribute the money and can you get it to the right places? In the community colleges, since we only have six, we were able to kind of direct that aid to each of the community colleges so it was a lot easier. But it's a lot more difficult when you get into a more complex formula. So I don't envy you having to make these kind of decisions. They're tough decisions to make. I think that, you know, there's definitely a concern about property taxes, there always has been. I think in my campaign I campaigned that I was going to figure out a way to take the heat off of property taxes. That was 1984. So we haven't quite got there yet, but maybe we'll get there at some point. So with that, I would be happy to answer any questions if there are any. [LB670]

SENATOR HADLEY: Senator Schumacher. [LB670]

SENATOR SCHUMACHER: Thank you, Senator Hadley. Thank you for your testimony. Calling upon your legislative history, which none of us here have, you mention back in

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 07, 2014

---

the early '90s there was an ag land percentage change and then that was followed by an increase in state aid to the institutions that were affected thereby. Was the environment the same then? Because now we are in an environment where we're hearing appeals to reduce ag land values at the very same moment we're hearing calls from significant entities to make rather substantial, on the order of hundreds of millions of dollars of cuts in state revenue sources such as the income tax. Was there a similar pressure from all sides and how did you handle it? [LB670]

DENNIS BAACK: I don't remember there being any pressure at that point on the income tax side. I don't remember that. I don't remember that in all my nine years that there was much pressure on the income tax side to make reductions in the income tax side. But there certainly was...we had just come through the time, you know, at that point in time in '92 we had just come through that cycle where they had...the Supreme Court had declared personal property tax as unconstitutional. And we had to go in and figure out a way to make up for that loss of revenue for folks, and then in that process we put a tax on fertilizer and some other things. And then I think we felt like there ought to be some relief for the agricultural sector by lowering the ag land valuation. But at the same time, there was not a pressure to do anything on the income tax side. So that's a little bit different. [LB670]

SENATOR SCHUMACHER: So it appears that the rocks and hard places have gotten a lot bigger now than they were then. [LB670]

DENNIS BAACK: Um-hum, yeah. [LB670]

SENATOR SCHUMACHER: Thank you. [LB670]

DENNIS BAACK: And the volumes are much bigger than they were at that time. Yes. [LB670]

SENATOR HADLEY: Senator Sullivan. [LB670]

SENATOR SULLIVAN: Thank you, Senator Hadley. Thank you, Mr. Baack. When you did that the last time when you were involved in it, was there...did you wait a year for it to actually be applied? Did you set the standard, okay, we're going to reduce this, but in terms of the calculation for state aid, did you wait a year for it to be applied? [LB670]

DENNIS BAACK: No. I think as those ag land values dropped there was then...as those dropped, there was always dollars put in to make up those differences for those political subdivisions... [LB670]

SENATOR SULLIVAN: Okay. [LB670]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 07, 2014

---

DENNIS BAACK: ...at the same time as those were dropping. [LB670]

SENATOR SULLIVAN: Okay. [LB670]

DENNIS BAACK: There was not a lag time in there. [LB670]

SENATOR SULLIVAN: Okay. [LB670]

DENNIS BAACK: At least that's the way I remember it. That's a long time ago and I'm old and I don't know if I remember it exactly. But I think that's exactly how we did it. [LB670]

SENATOR SULLIVAN: Okay. Thank you. [LB670]

SENATOR HADLEY: Senator Baack,... [LB670]

DENNIS BAACK: Yeah. [LB670]

SENATOR HADLEY: ...what alternatives do the community colleges have? You've given us a scenario where there's anywhere from \$8.5 million to almost a \$10 million decrease in revenue. [LB670]

DENNIS BAACK: Uh-huh. [LB670]

SENATOR HADLEY: What alternatives to keep community colleges whole is there available? [LB670]

DENNIS BAACK: Each one of the colleges do have some levy authority left. There is no one, this year anyway, that's at the max. We've got Central Community College was very close to that, at that maximum because they just don't get very much state aid. It kind of falls into equalization kind of idea, too, with those. They don't get very much state aid because of their huge property tax valuation of Central Community College. They have 24.5 counties of a lot of the best prime farmland in the state of Nebraska. So they don't get a lot of state aid. They're closer to their limit than the other one. They would have some levy authority to do it. If that doesn't get us there, then my guess is what they have to do is they probably have to go to tuition... [LB670]

SENATOR HADLEY: Tuition, okay. [LB670]

DENNIS BAACK: ...and look at raising tuition. And following me will be Dr. Mike Chipps and he's the president of Northeast Community College. He'll kind of give you an idea of what a rural community college with all this ag land and stuff would have to do to make this work. [LB670]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 07, 2014

---

SENATOR HADLEY: Thank you, Senator Baack. [LB670]

DENNIS BAACK: Um-hum. [LB670]

SENATOR HADLEY: Thank you, appreciate it. [LB670]

DENNIS BAACK: You bet. [LB670]

MICHAEL CHIPPS: (Exhibit 11) I see you still called him Senator Baack. That was pretty good, Senator Hadley. That's all right with me if it works. Good afternoon, Chair Hadley and members of the Revenue Committee. I'm Mike Chipps, president of Northeast, M-i-k-e C-h-i-p-p-s. I'm here in a neutral capacity to provide you information on the effect that LB670 would have on Northeast Community College. Just for an example really, and I think that goes kind of to Senator Schumacher and Senator Hadley's question, a decrease in ag valuation as LB670 proposes would cause a considerable revenue discrepancy for our essential entity, Northeast, that continues to experience greater and greater demand for its legislated services. Again, I want to emphasize the fact that with...the community college is in kind of a different posture because the demands are increasing at both sides of it, for economic development purposes from the high schools when it comes to the developmental issues that we're facing. So we have increased pressure on both sides of our equation. These changes in ag land valuations would impact the 20 counties in Northeast Community College's service area considerably. With ag land accounting for 62.55 percent of the total valuation of our 20 counties, as Mr. Baack reported, it would appear that fewer dollars will be available for ag land valuations, which disproportionately impacts our college area. And if you look at, for instance, the Tejas recent announcement in the Norfolk area, even though we were not the linchpin in that, Northeast Community College was a critical player in that determination because of the training we can provide to Tejas. And we can't lose sight of that because we continue to have so much positive pressure by people to deliver so many types of services that the Legislature asked us to do in the 1973 bill. While agricultural land valuations have increased in Nebraska over the years, it has allowed this funding source to increase Northeast's posture as well. But yet we haven't had significant adjustments that have been necessary in property tax levies. But I'm real concerned of how long this will last as a fellow Nebraskan. In my work with many national higher education boards and commissions and my work in the higher education community over 34 years, I have seen how the low levels of local property tax support have considerably affected other states' ability to keep tuition low. Consider Iowa, for instance. Iowa community college tuition averages around \$150--right now ours is about \$76--nearly double what it is here in Nebraska. In that state of Iowa, student tuition picks up nearly 50 percent of the total cost while local property taxes around 5 percent. States that have transitioned to a centralized higher education system have in effect left the original community college mission of being affordable and

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 07, 2014

---

accessible to everyone as tuition costs have escalated dramatically in these states based on my previous evidence. In addition, lower levels of funding directly undermines the ability of Northeast to offer career and technical programs using high-technical and expensive equipment being used in business and industry. What I've seen over the years across the country in working with various states is the fact that when these things start to move in this direction that we're looking at today that eventually what is cut and what's cut out of those community colleges are the costly issues. That's where we can make the cuts at Northeast, for instance, but it's going to be on the technical side. And what I've seen is kind of a reversion back to a junior college concept for these community colleges and, forgive me, I certainly hope that's not our intent here. The loss of revenue from LB670 to Northeast Community College would be approximately \$2.5 million. You can see that in that chart. To make up this loss, we would need to increase tuition as much as \$30 per credit hour or again make cuts. And when you have a growth curve with what your expectations are for a community college, it's kind of hard to meet the demands by the communities at large. For a full-time student taking 15 credit hours each term, that would equate to \$900 annual increase or a 38 percent increase in tuition, and certainly other states have gone to that for sure. In closing, state funding and local property tax support for Northeast Community College is clearly a strong investment, and that's one thing we need to look at for the community colleges--an investment in our residents and our citizens and in the companies in which they go to work for. And especially in rural Nebraska we need to continue to really be sensitive to the issue that we are primarily a rural state. And when it comes to Metropolitan, a lot of people think that's suburban because it really isn't as large as many other cities in the United States. But we have to be very sensitive to what we do to these rural areas if you want to sustain and grow them. Maintaining the current funding level and a balance of funding sources allows Nebraska's rural community colleges like Northeast to continue to offer the education and training our citizens need to be a productive, tax-producing resident. So with that, Chair Hadley, I hope these bulleted comments do help you a little bit because it really summarizes my statements. [LB670]

SENATOR HADLEY: Thank you, Dr. Chipps. Are there questions? Senator Hansen. [LB670]

SENATOR HANSEN: Thank you, Mr. Chairman. Dr. Chipps, I need to talk to Dr. Chipps because I don't see him anymore. Were you using the figures that if we're talking about a 10 percent decrease in valuation? What figures did you use to arrive at the \$2.5 million or two-point-some million dollar loss at Northeast? [LB670]

MICHAEL CHIPPS: That should be on the back of your chart. If not, I'm sorry if it's not...on the back of that chart that Dennis provided. [LB670]

SENATOR HANSEN: Oh, that Dennis provided. He's carrying the load. [LB670]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 07, 2014

---

MICHAEL CHIPPS: It is on there, uh-huh. It's the ten years, right. It's the ten...what? I'm sorry. [LB670]

SENATOR HANSEN: A full 10 percent decrease? [LB670]

MICHAEL CHIPPS: Yeah. [LB670]

SENATOR HANSEN: Thank you. [LB670]

MICHAEL CHIPPS: Uh-huh. [LB670]

SENATOR HADLEY: Any other questions for Dr. Chipps? Thank you. And I do know you played an important role in bringing that great company to Norfolk because they did talk about the quality of the workforce up there. So we thank you very much for your help in that area. [LB670]

MICHAEL CHIPPS: Thanks, Senator. [LB670]

SENATOR HADLEY: Next in the neutral. You have nothing better to do than testify before the Revenue Committee? [LB670]

MARK INTERMILL: (Exhibit 12) I'll be back too. (Laughter) Actually not really. Thank you, Senator Hadley and members of the committee. My name is Mark Intermill, M-a-r-k I-n-t-e-r-m-i-l-l, and I'm here today representing AARP. We're testifying in a neutral capacity because we have 200,000 members in Nebraska, some of whom are farmers, and almost all of whom are homeowners. We recognize that...well, AARP, we've mentioned a couple of principles that we want to apply as we look at revenue issues, one of which is adequacy. We want to make sure that the revenue system produces enough revenue to meet the state's priorities but also equity. And when we talk about equity, we look at vertical equity, which is the progressivity of the system, and horizontal equity, which means that people at similar incomes should pay similar amounts of state and local taxes. And we do see an issue with horizontal equity in terms of farmers. A \$50,000 of income produced by selling corn compared to \$50,000 of wages probably produces...has different tax burdens between those two types of economic activity. So that's a reason for supporting some sort of means of trying to equalize the tax burden between the agriculture and the other sectors. But I also recognize that we have a lot of homeowners. And I've just given you an example. I used Nuckolls County. We've heard from Randolph and Ord. Now you're hearing from Superior. I took a look at Nuckolls County in terms of the division of property values among the different classes of property. And then what would shifting from 75 percent to 65 percent mean? And there's a range of scenarios, one of which would be if there was no replacement of revenue. In other words, if we just went with a straight cut it would be about a million dollars reduction in terms of taxes on agricultural land. But that means a million dollar reduction

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 07, 2014

---

in local spending. And I know that part of that could come out of the Vestey Senior Center Nutrition Program, the transportation program in Superior, my alma mater, Superior High School, you know. So there are certain issues I think that we need...would be difficult to make what's essentially an 8 percent cut in local expenditures. The other option would be if there was a full replacement of revenue, and basically that means a shift of taxes. And we're particularly interested in shifts to real property. And you can see within Nuckolls County that would be an increase of about \$440,000 in taxes for residential real estate. That has implications for the homestead exemption program, which is something we're very fond of at AARP. We have tracked the homestead exemption program over the years. And as residential property becomes a larger share of the tax base, the homestead exemption increases. In this circumstance, we're also potentially looking, as has been mentioned or discussed, a bubble in ag land values. And if we see the bubble burst and we're still at 65 percent, that puts additional pressure on residential real estate. So while we see an issue that needs to be addressed, we're not sure that this is...changing the valuation of ag land is the approach that needs to be taken. I recall from news accounts of the release of the Tax Modernization Committee report there was discussion that there's some issues that need further study and I would certainly agree with that. I think this is one of them to try to get that horizontal equity in the tax burden. [LB670]

SENATOR HADLEY: Any questions for Mr. Intermill? Thank you, Mark. We appreciate it. [LB670]

MARK INTERMILL: Thank you. [LB670]

SENATOR HADLEY: Anyone else in the neutral capacity? Senator McCoy, would you like to close? [LB670]

SENATOR McCOY: Thank you, Senator Hadley. In the interest of time, I'll be very brief. And Senator Hansen can thank me later for all the testimony on "no question Friday" coming on on this bill. I think we've heard a lot of great testimony today, and I thank everyone for being here and for all of you for patiently listening and highlighted some of the challenges that we face with this issue. I also would mention I think all of us here were part of these hearings and know that many different times locally elected officials were asked in the course of our hearings, Tax Modernization Committee hearings, if state aid was reinstated would that mean that you would lower taxes? And not one of those locally elected officials said that they would. And I think that highlights the challenges that we face with this issue as we've heard. And there are no easy answers and there never are. But I think that what we also have heard and it was used I think in another bill that I introduced last session that we want to be very careful that when we talk about agriculture that drives our economy that we be...that we should think very carefully about how we go about making sure that we aren't harming agriculture long term. And all of the testimony that we heard today is predicated on the fact that

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 07, 2014

---

agriculture is there in a robust way to continue to provide this revenue for all of the other good things that we do. And that's what I think we ought to keep at the forefront of our mind. That's why I brought this bill. So with that, thank you, Senator Hadley. [LB670]

SENATOR HADLEY: (Exhibits 13 and 15) Any questions for Senator McCoy? Thank you, Senator McCoy. We appreciate it. I would like to read into the record a statement from the Nebraska Soybean Association in support and from Jack Andersen in opposition to LB670 and LB813. (See also Exhibits 14 and 24) With that, that will close the hearing on LB670. Senator Hansen. [LB670]

SENATOR HANSEN: I'm sorry. My phone is ringing. Hello. Yes, we're still in Revenue. Yeah, I'll be home by midnight. Bye, Dear. (Laughter) [LB813]

SENATOR HADLEY: I don't know if that was a hint or not. [LB813]

SENATOR HANSEN: (Exhibit 17) Well, good afternoon, Senator Hadley, members of Revenue Committee. My name is Tom Hansen, T-o-m H-a-n-s-e-n. I represent Legislative District 42 and I'm here to introduce LB813. Last year during the interim, the Tax Modernization Committee met at least with 1,000 Nebraskans at five recorded public hearings across the state: Scottsbluff, North Platte, Norfolk, Omaha, and Lincoln. Two hundred fifty testifiers made their cases for how we could modernize our tax system. The committee listened and studied the issue, and the citizens told us their personal concerns with our present tax laws. It is no surprise that property taxes were a common theme across the state. Ag landowners were loud and clear that too many school districts are relying on local effort levies built on the increase of land values. According to the USDA, land values have increased 33.5 percent in 2012 and an estimated 18 percent increase in 2013. Our Tax Equity and Educational Opportunities Support Act, or TEEOSA, formula reflects the land price bubble directly as it decreases in state aid for districts smaller than the largest 30 school districts. Ag land can be treated differently for residential, commercial property because in 1972 the voters approved a constitutional amendment which allowed agricultural land to be valued at a nonuniform manner relative to other property. Agricultural land is classified and taxed at a lower rate than the level of the market value. Nebraska has classified their agricultural land at 75 percent of the market. This is a higher ratio of the taxable value to market with Nebraska's border states. And I don't know if the graph has gone around, the graph that was handed to you, you can see that since 2008 the taxable valuation of ag land has increased approximately 80 percent. Property taxes paid on agricultural estate...on real estate rather, not on estates, but on real estate has risen accordingly from \$518 million in fiscal year 2008 to \$892 million in fiscal year 2013. Farmers and ranchers are now paying approximately 26 (percent) of the \$3.4 billion in property taxes collected statewide, yet they represent less than 3 percent of the population. And that's shown on that, on a pie graph on the handout. In comparison, residential real property values have increased only 10.27 (percent) in that amount of time and commercial and

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 07, 2014

---

industrial values by 31 percent over that same time period. In 2008 and 2013 property tax levied on agricultural land has increased roughly 66 percent; on residential property 8 percent; and on commercial and real property 17 percent. It does not seem that this discrepancy can be fully justified by any decrease in the stagnation of residential or commercial or industrial property values, relying solely on comparable sales based on a relatively few number of land transactions, which is less than 2 percent of the ag land transfer per year according to UNL economist Bruce Johnson. Assessed valuation is an imperfect measure of wealth and of the ability of the average farmers and ranchers to pay their property tax liability. Agricultural land valuations continue to climb and will likely continue to do so for the next few years, given the use of the three-year rolling average plan. Corn prices are depressed back to the \$4 range and all agricultural commodities have the ability to change direction very quickly. The average farmer and rancher's ability to pay property taxes will likely be reduced. In the legislative intent of the statute 79-1002 of the TEEOSA act states: It is the intent and purpose and the goal of the Legislature to create a system of financing the public school system which will: (1) provide state support from all sources of state funding sufficient to support the General Fund expenditures for public education that cannot be met by local resources; (2) was to reduce the reliance on property taxes for the support of the public school system. That was in 1990 and we're still trying to figure out how to make this work. I think that LB813 is one way we can help reduce property taxes. Thank you. [LB813]

SENATOR HADLEY: Senator Sullivan. [LB813]

SENATOR SULLIVAN: Thank you, Senator Hadley. And thank you, Senator Hansen. Neither one of us were around... [LB813]

SENATOR HANSEN: No. [LB813]

SENATOR SULLIVAN: ...in the '90s when LB1059 came into being. Do you think that there may have never been the expectation when that discussion took place that ag land values would do what they are currently doing? [LB813]

SENATOR HANSEN: Well, 1990 is not that far behind us. I mean, it was increasing at that time but never at the amount that it has in the last ten years or even five years maybe--probably not, probably not. I know the last land that we bought as a ranch we bought in 1985, grassland only, we paid \$85 an acre for it. And now that's valued at over \$300 an acre. We're not going to sell it. We're not planning to sell it unless we have to sell it to pay property taxes. [LB813]

SENATOR SULLIVAN: But because your land is valued based on those market sales, do you think that's part of the problem, on how we actually value land, not at the percent at which...of it that we tax? [LB813]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 07, 2014

---

SENATOR HANSEN: I think it is. I think the comparable sales, I mean we need some common sense in that. If it's true that only 2 percent of the land sells in the state of Nebraska per year and we figure out all these 93 counties' comparable sales based on those 2 percent, I don't think it's very fair. I don't think it's very scientific. It's just a guess at who's willing to pay more for a piece of land. And quite often it is a neighbor. It's not an outside investor from Chicago or Atlanta or wherever. It's a neighbor that one time in their lifetime in that generation that land becomes available. And if the market provides the ability to produce, everything is well. [LB813]

SENATOR HADLEY: Senator Schumacher. [LB813]

SENATOR SCHUMACHER: Thank you, Senator Hadley. As you just mentioned, this land turns over maybe once in a generation or maybe it turns over with the out-of-state heirs being or nonfarming heirs being bought out. Do you see as part of this puzzle this tremendous increase in wealth that has occurred because the land values have gone up that the heirs of the people who hold that land, in many cases half of which live out of state, will inherit that land tax free and that appreciation tax free up to maybe the full \$10 million federal estate tax limit? Is that part of the problem we're seeing here? [LB813]

SENATOR HANSEN: Oh, I'm sure it is. I'm sure that that happens and I'm sure that's part of the problem. [LB813]

SENATOR SCHUMACHER: Thank you, Senator Hansen. [LB813]

SENATOR HADLEY: Senator Harr. [LB813]

SENATOR HARR: Thank you. And it's one of the problems we have with land. It's one of the few commodities you can't create more of and demand will only increase. Do you think if you are against comparable sales, are you advocating for the income approach then or what do you think is the best way of determining value? [LB813]

SENATOR HANSEN: Our surrounding states, I think every one of our surrounding states uses a production model. NRCS has maps of every county, every inch of every part of the state of Nebraska. They know what the...they've got a seven-year, I think, seven-year history on every county and those...plus those soil types. We could come up with something, I think, I mean give it enough time; but we can't by the end of this session. [LB813]

SENATOR HARR: And maybe I need to study this a little more because I don't know, but, you know, for the last three, four years I think the goal has been to plant as much as you can because the market has been great. This year I think we have to be a little bit more strategic, most farmers, a little more strategic in how they're planting to

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 07, 2014

---

maximize their income. How do you determine what is...what the true income should be so that you don't punish...well, a poor farmer pays less sales tax than a good farmer? How does that operate? So if I have the same two acres right next to each other and one produces a lot more, do you tax them at the same rate or how does that work? I don't understand how... [LB813]

SENATOR HANSEN: On a production model? [LB813]

SENATOR HARR: Yeah. [LB813]

SENATOR HANSEN: It would be taxed similarly. [LB813]

SENATOR HARR: How do you determine... [LB813]

SENATOR HANSEN: If they're side by side, they don't...I don't think they take in the account whether it's a good farmer or a bad farmer. The county average is what they're shooting for so the good farmer would get penalized if anything. [LB813]

SENATOR HARR: Is it the average income, average production? How does that work? [LB813]

SENATOR HANSEN: I'm sorry, I don't know. [LB813]

SENATOR HARR: Okay. And we can research this. That's why we have the Google machine. Thank you. [LB813]

SENATOR HADLEY: Senator Hansen. [LB813]

SENATOR HANSEN: I do want to make a comment to Senator Harr's question earlier about residential on ag land. We have a headquarters in North Platte. In North Platte we have headquarters, we have houses, we have barns, we have shop, and it all went up 30 percent this year on that 20 acres. So we do get increases on residential property too. Sorry, Senator. [LB813]

SENATOR HADLEY: Oh, that's no problem. Senator Hansen, we've talked a lot or we've heard that there is the possibility that there will be less money available to some local governmental units when this happens. What's your thoughts? How as a body do we have any responsibility for that? As Senator Baack talked earlier that in '92 or whenever it was the Legislature stepped in and tried to make local bodies whole. What's your thoughts on that? [LB813]

SENATOR HANSEN: Well, I think that is important. I was on the Appropriations Committee the year that we said, you know, we need to save another \$42 million so no

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 07, 2014

---

more state aid to cities, counties, and NRDs, temporarily. But it didn't ever come out temporarily. Once you make some of those actions, it's hard to go back and make those people whole. I assume that's the same thing that Senator Sullivan and her former Chairs of the Education Committee did too. They had so much TEEOSA money, things get tight, they cut back. And then we have this land value thing that's going crazy and so they don't need it. You know, Lincoln they don't need that money so they don't get any TEEOSA. I don't know if we can make everybody whole, but this is our best guess as what to do. Mr. Barnes said, you know, if we take a 10 percent reduction in valuation we may not see much difference in the total amount of taxes. I would have to agree with that because we're getting...you know, taxes are going up 20, 30 percent in a lot of places and some even more. Lancaster County went up 56 percent this year in its irrigated corn ground. So those valuations are going to jump way faster than this valuation thing is going to help. [LB813]

SENATOR HADLEY: Senator Schumacher. [LB813]

SENATOR SCHUMACHER: Thank you, Senator Hadley. Senator Hansen, just one kind of follow-up question. We heard testimony earlier today that the big getting bigger ag operation is probably affected less by the tax problem than the little guy who isn't growing. Yet our constitution says that we've got to treat all ag land with the same rules. Should maybe we be looking at an amendment to our constitution which allows us to treat the people who are really being hit by this, the little guy, differently from the guy who might be causing the problem by bidding up the land? [LB813]

SENATOR HANSEN: Well, if you want to create a class society, we could. But I don't think that that's necessary. [LB813]

SENATOR SCHUMACHER: But isn't part of the issue that any action that we take now, for example, like a 10 percent shift adjustment gives as much aid to the big operator who isn't feeling the pinch as it does to the little guy? [LB813]

SENATOR HANSEN: I don't go with that philosophy. I think that's a class society and we've talked about that. In 2007 when we started the property tax refund bill and Senator Pirsch was here, too, and we talked about Ted Turner. I mean Ted Turner's name was drug through the mud because he was going to get a \$65,000 rebate on his property taxes through this fund. So you have to reverse that and do the math and the amount of property tax he's paying was significant in those counties that he pays taxes on. Mormon Church the same way--they're huge. Both of them are very big landowners, but they pay their fair share now and a break should be fair across all producers. [LB813]

SENATOR SCHUMACHER: Thank you, Senator Hansen. [LB813]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 07, 2014

---

SENATOR HANSEN: Yep. [LB813]

SENATOR HADLEY: Just a quick point. My math is never very good, but if we go from 75 to 65, that's literally a 13 to 14 percent decrease in the property taxes. It's not a...it's 10 percent from 75 to 65, but it's a 13 to 14 percent decrease in the property tax, which is a significant amount. Thank you, Senator Hansen. We appreciate it. [LB813]

SENATOR HANSEN: Thank you. [LB813]

SENATOR HADLEY: I would ask...I know some of you deferred your testimony to here which is absolutely fine. But if you testified on the last bill and, you know, if you want to come up and just say, "the same thing," that's fine also. But there's no need to repeat everything you said the last bill. We'll take them together. Mr. Nelson. [LB813]

STEVE NELSON: (Exhibit 18) Good afternoon, Senator Hadley and committee. Again, I'm Steve Nelson, S-t-e-v-e N-e-l-s-o-n, and I'm a farmer from Axtell where I farm with my son. As I indicated earlier, I'm here today to testify on behalf of Nebraska Farm Bureau. I'm not going to read my testimony. A lot of the things that I've said have been...or that I have in here have been mentioned, and I don't want to take...I want to get to questions if there are questions. But first I do want to express my gratitude for all of the work that everyone has done during the interim to work on this issue. And I worked pretty hard on my testimony so I hope that there's some questions here. But what I want to say, which would have been some of my summary comments are that we're here to talk about the imbalance that there is in the property tax system, and the numbers have been laid out here before. And I know as when I go home on the weekends and talk to my members or neighbors the same as you do that I'm told every time I talk to people that we need to do something about property tax. And I know it's not easy and there's been lots of things laid out here and I'd like to talk about some of those. But again, it's the Legislature that makes the rules. And we keep hearing over and over again, as you did during the interim session and as we go home, that we need to do something about property tax. And so I want to help in every way that we can to do that, but I want to concentrate on that issue of those things that we can do to reduce the burden of property tax. So I will close there and be open for your questions. [LB813]

SENATOR HADLEY: Are there questions for Mr. Nelson? Senator Schumacher. [LB813]

SENATOR SCHUMACHER: Thank you, Senator Hadley. Thank you for your testimony today. If we're put between a rock and a hard place between property tax relief and cutting the top income tax bracket, which would you prefer us do? [LB813]

STEVE NELSON: Our Farm Bureau policy talks about property tax so it's property tax, a simple answer to the question. [LB813]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 07, 2014

---

SENATOR SCHUMACHER: Okay. Thank you. [LB813]

SENATOR HADLEY: Mr. Nelson, the same question I asked three other people and you get to it in your third from last paragraph about the equity, the potential equity of a farmer in Sarpy County where only 2 percent of the property is ag and they go from 75 to 65, there probably isn't going to be much change in the mill levy because of that change versus a farmer who's out west where there's 65 percent to 70 percent of the valuation is in ag land where 75 to 65 could cause mill levies, if it's available, to go up. So that farmer out there may see very little, if any, property tax relief whereas the property owner in Sarpy County could. How do I...if these two people come into my office, how do I explain to them... [LB813]

STEVE NELSON: Sure. [LB813]

SENATOR HADLEY: ...a system that allows that to happen? [LB813]

STEVE NELSON: I think there's more than one answer to the question. First of all, just because this would do more for one area or less in another area or help one size farmer more than another size farmer, that doesn't mean we shouldn't do something. I think we still need to do something because of the imbalance. It goes back to how much burden is being placed on property tax, that we still need to address the property tax issue. So and the other piece of it and I know it's not a popular answer, but I don't think we can address tax issues, particularly property tax issues, if we say that we aren't going to address spending. Spending has to be a part of the issue. And I lay out in the testimony, which you all can read that in the end, this is a relatively small cut when you average it out over the years that Senator Hansen talked about and you look at the growth that's already been there that it's like a 3.6 percent cut. And again, that's an average. I know that that would affect different people differently. But I think that spending still has to be...I mean, I don't think if we say that we're not going to have spending considered, there's not much we can do with any tax. So we have to be willing to have that piece on the table. And we have numbers that show the growth, and I got to read this to have it right, but the average growth over the last ten years for county governments has been 5.8 percent; for schools, 4.9 percent; for community colleges has been 8 percent; and the inflation rate has been 2 percent. So there's been growth above inflation there. And my point is, is that there is room to cut. And I served on the school board in the '90s. I've had that experience. I've been there when we've had to cut. Nobody likes to do that. I don't like to do it on my farm when things are tight, but it can be done. And we found things at that time that we were spending money on that we didn't need to spend money on. Again, I know that's a general comment and there will be stories on extremes of both of those. But that can be done. So I'm just saying directly I think spending has to, you know, is part of this issue. And it's not just if we have a reduction in taxes here that we have to come up with the money from somewhere else. Spending is a piece of that

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 07, 2014

---

equation also. [LB813]

SENATOR HADLEY: So I've been telling people that I'm here to cut your taxes and increase your services is probably not a good thing for me to be telling people. Is that a fair statement? [LB813]

STEVE NELSON: Whenever you came to Kearney County, you were pretty successful in your message, I'll tell you that. (Laughter) [LB813]

SENATOR HADLEY: Thank you, Mr. Nelson. We appreciate it. [LB813]

STEVE NELSON: Okay. [LB813]

SENATOR HADLEY: Any other questions? Thank you. We appreciate your patience in waiting. [LB813]

STEVE NELSON: Okay. Sure. [LB813]

SENATOR HADLEY: Next proponent. Welcome. [LB813]

KEN BOSWELL: (Exhibit 19) Thank you, Senator Hadley and the Revenue Committee. I am Ken Boswell, K-e-n B-o-s-w-e-l-l. I'm here to present testimony on behalf of the Nebraska Soybean Association. Instead of reading my written comments that are being handed out, I'm just going to add a few comments, in essence of time, that I've come up with since I printed this up from the other testimony. There's a lot been said that this bill is going to shift property tax to the homeowners. I'll agree with that probably. But with the increase in agricultural value over the last ten years and the stagnant value of the homeowners, the shift has went to agriculture over the last ten years so this bill is reversing a part of that. It won't reverse it all, but it will reverse part of it. And also with Farm Bureau's comments on the cost over inflation in that, there is room to cut. I'll agree with that. And I'll open it up to questions then. [LB813]

SENATOR HADLEY: Are there questions for Mr. Boswell? Seeing none, thank you. We appreciate you coming in. Next proponent. Welcome. [LB813]

DWIGHT TRUMBLE: Senator Hadley, members of the Revenue Committee, my name is Dwight Trumble, D-w-i-g-h-t T-r-u-m-b-l-e. I came down this afternoon to listen, but I heard things that disturbed me so I had to get up and say something. I heard the rural-urban card played. That's what really bothered me. I would hope that you would not consider that card. What you should be considering, in my mind, is how Nebraska agriculture is treated compared to agriculture all over our area. Please keep Nebraska agriculture competitive. Nebraska agriculture, especially row crop agriculture, is what has made Nebraska economy as healthy as it has been for the last few years. That has

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 07, 2014

---

changed. Prices have dropped considerably for row crop production. Corn has gone down from \$7.50 last spring to in the area I looked this morning it was \$4.15 for corn. Soybeans has dropped a couple dollars in the similar time. We are going to see improvement hopefully in the animal agriculture that will pick up some of that, but that is going to be a slow process. If you're a cattleman, you've sold off a lot of your cattle. Some have lost their cattle in the snowstorm up in northwest Nebraska. It's going to take time to rebuild those herds. Hogs, poultry can pick up a little faster. It's very important that we keep Nebraska economy healthy. That's the only way we can support our state the way we do. I would hope that you would move forward and do something irregardless of whether it's these two bills or some other means to keep Nebraska agriculture productive and healthy. Thank you, and I'd be glad to answer any questions you may have. [LB813]

SENATOR HADLEY: I have just one quick question. I know that corn, row crop prices have come down. Is this part of a normal cycle in agriculture? [LB813]

DWIGHT TRUMBLE: Oh, absolutely. [LB813]

SENATOR HADLEY: I guess I'm asking from ignorance. Does it...is it like the normal business cycle where you're doing well, then it comes down and then it goes back up? [LB813]

DWIGHT TRUMBLE: We're at the tail end of a 20-year cycle some people say. We've seen the last of the highs. I hope it doesn't take another 20 years because I, as a farmer, am more optimistic. I think the worldwide demand, we're going to see less than a 20-year cycle. [LB813]

SENATOR HADLEY: With the growing, that is true. [LB813]

DWIGHT TRUMBLE: Yes, yes. [LB813]

SENATOR HADLEY: Worldwide demand for agriculture and our job (inaudible). [LB813]

DWIGHT TRUMBLE: But to emphasize where we are right now, I have a friend whose son-in-law is a local banker. He says...he told me, the friend, that he has young farmers coming in, leaving with long, long faces. Their cost of production is more than what they're making. We are going to go through some hard times I think in Nebraska agriculture in the near future if we don't get some things straightened out. [LB813]

SENATOR HADLEY: Thank you. Any other questions? Thank you. We appreciate you coming in to testify. [LB813]

DWIGHT TRUMBLE: Thank you for the opportunity. [LB813]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 07, 2014

---

SENATOR HADLEY: Next proponent. [LB813]

STEVE EBKE: (Exhibit 20) Mr. Chairman and members of the Revenue Committee, my name is Steve Ebke, and that's spelled S-t-e-v-e E-b-k-e. I'm a farmer from Daykin, Nebraska, and I'm here today representing the Nebraska Corn Growers Association. Mr. Chairman, with respect to the time and with your permission, I'd like to testify on the four bills that you're considering today. Is that... [LB813]

SENATOR HADLEY: Okay, that would be great. [LB813]

STEVE EBKE: Okay, thank you. So on behalf of our Nebraska Corn Grower members, I would like to offer thanks to the senators who have introduced these bills, appreciate the effort to address this issue. We, like many other groups, have long thought about the three-legged stool inequality and, you know, based on the information that you received in your Modernization hearings, we realize that there seems to be a disproportionate share of property taxes when it comes to the local tax burden that are placed on ag. I would also, you know, like to suggest that, as you've heard, ag is a very volatile business. So we know that the commodity prices have dropped recently. I'm not sure that what we saw, experienced wasn't out of the normal. We do have a cyclical business, but I don't know that we've seen the extremes that we've just experienced. Anyway, it is a very volatile business and whether you make a profit or not, the property taxes need to be paid. With that in mind, I think that in addressing LB913 and LB1038 there are times when that volatility is going to generate very little or no taxable income so that the relief offered by those bills probably isn't going to be available since it's a nonrefundable credit. Our members support the intent of those bills. We would ask, though, that the committee consider some sort of a refundable component or some sort of a credit carryforward or carryback so that if the unused credit is in a lean year that when things cycle to a better situation those credits might be available to the taxpayers. And in closing, I guess we urge the committee to craft a comprehensive solution considering all of these thoughts and the components of these bills and that you help to moderate Nebraska's reliance on property taxes, particularly ag land property taxes. Thank you. [LB813]

SENATOR HADLEY: Thank you. Are there questions? Seeing none, we appreciate you coming in to testify. [LB813]

STEVE EBKE: Thank you. [LB813]

SENATOR HADLEY: Next proponent. [LB813]

BARB COOKSLEY: Good afternoon, Senator Hadley and members of the Revenue Committee. My name is Barb Cooksley, B-a-r-b C-o-o-k-s-l-e-y. I am a cow/calf

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 07, 2014

---

producer from Anselmo, Nebraska, and I'm also vice president of Nebraska Cattlemen. Nebraska Cattlemen is here today in support of LB813. We know that LB813 will lower the taxable value of ag land from its current level down to 65 percent. Nebraska Cattlemen has strong policy in support of lowering the property tax burden for farmers and ranchers. And I'd like to share today how my husband and our ranch looks at property taxes in a way we haven't necessarily heard today. We went back in our tax records and in 1980 we were paying 99 cents an acre; in 1990 it was \$1.19; in 2000, \$2.34 an acre; and in 2010, \$4.39 an acre. These property taxes have to be paid every year, good times or bad. We have come out of a severe drought in 2000. We had to reduce the number of cattle on our native range, but the property taxes continued to increase. We are limited by our grass resource by the number of cows. And when we have to reduce that, each cow has to produce more. We set down on a per cow basis, she currently has to come up with \$80 a head, that cow does. And so when we reduce the number of head, we increase what that needs to be. We know there's not one simple fix. We also have heard other options out there to look at the high tax rates. Lowering the property tax valuation is an important first step in providing real relief, and we ask for your support of LB813. And we also support LB670. I'll be happy to answer any questions. [LB813]

SENATOR HADLEY: Thank you. Are there questions? Seeing none, thank you for testifying. [LB813]

BARB COOKSLEY: May I make one comment? [LB813]

SENATOR HADLEY: Sure, you may. [LB813]

BARB COOKSLEY: Some of you may know that we lost one of our own members this week. Robin Coulter Lapaseotes was killed in a traffic accident. She was our taxation chairman for our association. She will be missed as a daughter, a sister, a wife, and a mother, and for the rest of us a friend and fellow producer. [LB813]

SENATOR HADLEY: Thank you very much. I've met Robin. [LB813]

BARB COOKSLEY: Thank you. [LB813]

SENATOR HADLEY: Next proponent. You need another green sheet. You can fill it out. [LB813]

JAREL VINDUSKA: Okay. Is it okay to...? [LB813]

SENATOR HADLEY: He will get you one, but we need one for each bill. [LB813]

JAREL VINDUSKA: Okay. [LB813]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 07, 2014

---

SENATOR HADLEY: But go ahead and start. [LB813]

JAREL VINDUSKA: I'll just make it quick since I talked before. I want to thank Senator Hansen for bringing this forward, and Senator McCoy for the other bill. Only comment I want to make, I keep hearing repeated over and over again about this tax shift and I thought Senator Hansen covered it very well, where he explained how many years in a row the percentages we've been going up. And I know because I watch real estate values myself. Within the last ten years, almost all of Nebraska has gone up at least three times the value of what it was ten years ago. And so, as you heard Senator Hansen say, you know, one year a couple years ago it was 18 percent per year. So I don't know how it can be considered a tax shift if for the last 10-12 years we're getting double-digit increases of 10 percent to 18 percent, 20 percent per year and we're only going to back off 13 percent, as you say, Senator Hadley, back off 13 percent. That doesn't even account for one year that we've went up. So, you know, it would be like me, if I'm getting an 18 percent, 20 percent raise per year in my salary and then all of a sudden I have to back off 10-13 percent. Most people wouldn't be too sympathetic and say, oh, no, my budget has all fallen to pieces now, because they look at how much I gained all these years. So anyway, that's all I had to say. [LB813]

SENATOR HADLEY: Would you state your name and spell it so we can get... [LB813]

JAREL VINDUSKA: Jarel, J-a-r-e-l, Vinduska, V-i-n-d-u-s-k-a. [LB813]

SENATOR HADLEY: Good. And the page will give you a green sheet, if you would fill it out and just drop it to our clerk. [LB813]

JAREL VINDUSKA: Thank you. [LB813]

SENATOR HADLEY: Thank you. Next proponent. Are there opponents to LB813? [LB813]

LARRY DIX: Good afternoon, Senator Hadley and members of the Revenue Committee. My name is Larry Dix, L-a-r-r-y D-i-x. I am here representing the Nebraska Association of County Officials in opposition to LB813. Certainly I know you're aware of the testimony on the previous bill and it rings exactly the same on this bill, no question about that. One of the...just a couple of quick comments that I would make. Senator Sullivan had asked a little bit about in years...many years ago, and either fortunately or unfortunately, I've been involved in property taxation since the late '70s, and at that point in time I was deputy county assessor in Buffalo County. And what has changed is the pressure was not there in the late '70s on property tax the way it is today. If you...I think if you start to look at that, we've consistently moved more and more pressure on to property tax and that's why we're hearing...when we go across the state. I don't think

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 07, 2014

---

there's any question about that. I can remember in those days ag land values, when we would look at ag land values, because they were still valued similar to what they were today but we weren't seeing the market value of them change so drastically. And so actually, ag land values on an assessment record would actually stay the same for multiple years. And so we just don't see the pressure. We didn't then like we do now. And the other thing that helped in that pressure was back then there was personal property taxes, there was a significant amount of state aid. And so you just...you start to put it all together and over time we have created what we have today. And unfortunately for the agricultural folks, that has created a tremendous amount of pressure on them. The other thing, as we go to Senator McCoy's companion bill, one of the things that we look at, it's going to be...it's very complicated when you start looking at tax policy. But one of the things with Senator McCoy looking at putting additional money into the Property Tax Credit, keep in mind that Property Tax Credit goes to all taxpayers. Ag folks will receive Property Tax Credit because of that bill just like the residential, just like the commercial folks. So when you look at that, that would be a very simplistic way of providing some additional property tax relief across the spectrum. Lastly, I would tell you I believe there is a way that in time, if we have time, we could look at more of a targeted property tax approach to where we could look at targeting relief in areas where they are at levy limits, people that are at levy limits, and we could look at ways to target in areas of the justification of an increase in budget. And anything above that certain level becomes the burden of the local property taxpayers and allowable growth could be the burden on the state's side. And so, in essence, you would be bringing more of the revenue from a state. You would actually create another shift, more so from income and sales, to accomplish a protection of the property tax and take some relief off of the property tax burden. And I believe that can be done. [LB813]

SENATOR HADLEY: Are there questions for Mr. Dix? Seeing none, thank you. Next opponent. [LB813]

RICHARD LOMBARDI: (Exhibit 21) Mr. Chairman, my name is Richard Lombardi. I am serving as the registered lobbyist for the Center for Rural Affairs. I would ask your indulgence. I have included our opposition testimony to LB670 also, and then neutral testimony on LB1038. Center for Rural Affairs has been around for about 40 years, and during your Tax Modernization hearings, that organization testified that property taxes are too high and local government entities throughout the state are too reliant on property taxes. Our mission has always been to build strong rural communities and provide opportunity for rural folks. We are concerned that this piece of legislation, as many of you have suggested, might in fact actually raise property taxes. It is with that concern why we find ourselves in the opposition position here that this could cause the tax shifting that many of you have flagged. I think OpenSky had suggested there might be a \$100 million hole that will be created. Fourteen rural counties could be put over their levy limits. And I think that in the late 1980s, actually, Center for Rural Affairs did their own tax modernization study and put together a cross-section of Nebraskans from

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 07, 2014

---

all over rural Nebraska, and surprisingly, if you take a look at their study, you will see it has pretty direct parallels to what you came up with your Tax Modernization work. And clearly, the places that I think the center believes could be helpful is that a revisiting of the cuts that were made to cities and counties and NRDs during the last several sessions, during some tough economic times, should be revisited. And that in attempting to define targeted, strategic options of how you go after providing targeted property tax relief, certainly the circuit breaker approach has been one that the center has been very supportive over two decades now. And is certainly in support of the concept in LB1038; however, like many of us that like the circuit breaker, we pretty well were hit with sticker shock when the fiscal note came in, so that's the reason for the neutral testimony. So thank you very much. [LB813]

SENATOR HADLEY: Thank you, Mr. Lombardi. Are there questions? Seeing none, thank you. [LB813]

RICHARD LOMBARDI: Thank you. [LB813]

SENATOR HADLEY: We're still on opponents. [LB813]

SARAH FORREST: (Exhibit 22) Good afternoon, Chairman Hadley and members of the Revenue Committee. My name is Sarah Forrest, S-a-r-a-h F-o-r-r-e-s-t, and I am the policy coordinator for child welfare and juvenile justice at Voices for Children in Nebraska. Voices for Children is a statewide, independent, nonprofit organization committed to telling the whole story of how kids are doing in our state and working to make systemic policy changes to improve their lives. Today we find ourselves in opposition to both LB813 and LB670 because of concerns about how it could negatively impact the provision of critical services to children and families at the local level. You've heard already today about some of the impact on our education system that could occur, but I'd like to talk a little bit more specifically about the impact on our juvenile justice system. As you all know, last year this Legislature passed an important piece of juvenile justice reform, LB561, that looked at keeping more kids in their communities and out of detention and out of the state's custody and incarceration. And while we think this is a wonderful step forward and there was some money provided for counties as part of this, the full appropriation was not possible at that time. And as we look at really improving services to kids on the county level and maintaining public safety, we feel it's important that the adequacy of those services be taken into account. I would also note that some of the counties that have the highest rates of juvenile arrests in the state would be some of those that would be hit most substantially in terms of total revenue loss or percentage of their operating budget. And so we just ask you to keep those considerations in mind. And I would be happy to answer any questions. Thank you. [LB813]

SENATOR HADLEY: Thank you, Ms. Forrest. Questions? Seeing none, thank you.

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 07, 2014

---

[LB813]

SARAH FORREST: Thank you. [LB813]

SENATOR HADLEY: Next opponent. [LB813]

RENEE FRY: Hello again. My name is Renee Fry, R-e-n-e-e F-r-y. I'm executive director of OpenSky Policy Institute. I won't repeat my comments from before. (Exhibit 3) I just wanted to add a couple of things that have been brought up. You had a discussion about state aid, and we are 43rd in the country in terms of state aid to local governments. So we are ranked very low compared to most of our...most of the country. There was a conversation about spending. I did miss the years that the Farm Bureau looked at. We have looked at that issue as well, spending at the local level, and we have found over the last decade that spending at the local level by local governments has been flat as a share of the economy. So I'd be happy to share that data with you. Finally, the Anderson report on use value, I have sent that to the clerk and have asked her to share that with you, so. [LB813]

SENATOR HADLEY: Thank you, Ms. Fry. Questions? Seeing none, thank you. [LB813]

RENEE FRY: Thank you. [LB813]

SENATOR HADLEY: Any other opponents? [LB813]

RANDY LENHOFF: My name is Randy Lenhoff, L-e-n-h-o-f-f. I testified earlier; same comments. Unless you have further questions, that's it. [LB813]

SENATOR HADLEY: Thank you. Questions? Thank you. Any other opponents? We will now go to the neutral. [LB813]

JOHN HANSEN: Mr. Chairman, members of the committee, for the record, my name John Hansen, J-o-h-n, Hansen, H-a-n-s-e-n. I'm president of Nebraska Farmers Union, also their lobbyist. On this issue, the prospect of...first of all, I thank Senator McCoy and Senator Hansen for bringing the ideas forward. I think it ought to be part of the mix and the discussion. But on this issue we have a very complicated response, which gets us to neutral, which is if we're going to lower ag land valuations, how much property tax relief are we fixing to get for the negative public perception that we're going to acquire? So we're going to get a negative public perception because ag is getting cut this special deal, and yet we're going to have, what we would guess, the lion's share of the folks in counties that aren't going to get any real property tax relief because we're less than sure that we're likely to get a corresponding amount of state revenues to make up for the loss of revenue. And as a result, because the ag land percentage is so high, what we'll end up doing is we'll just take...we'll, because the valuations are there and the levy limit is

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 07, 2014

---

still available, we'll just up the levy limit and so there will be no real property tax relief. And so we'll get some property tax relief in those districts where you get...you have mixed districts, mixed use, mixed classes. You'll get some there, but a lot of our folks aren't going to get it. And so we go back to how it is that we got to the business of 80 percent in '92, and we got there because of the MAPCO decision and because of what we had before was no longer available to us, which was an earnings capacity type formula for valuations. And so I was a part of the effort with the Farm Bureau and the Cattlemen and Farmers Union, went together and supported the constitutional amendment that came out of the Legislature to put earnings capacity back into place. We supported that constitutional amendment. We were successful in the...at the ballot box, and the Supreme Court of the state of Nebraska said that the constitutional amendment that the Legislature brought forward that we supported was unconstitutional. And so we were desperate and so we had to come up with something that would work. And so what we came up with is this sales formula, which we thought that that Supreme Court at that particular point in time would accept, which apparently they did. So we got to this business of using the formula that we use to get to ag land valuation out of necessity. It was not our policy choice at the time. So if you were to ask I think an awful lot of folks in ag if they had their druthers, what would you rather do, they'd rather go back and try to do something closer to an earnings formula that...as complicated as that is, but something more similar to what they do do in other states around us, and try to get at some other better basis for valuing ag land. Because as we lower this percentage, we're certainly picking up this public perception that you guys are getting a special deal, although in a lot of places "special" doesn't really mean a better deal. It's just special because it's all different pockets on the same set of pants, because based on the valuations, where, you know, you pay less here, you pay more there because that's where the value in that county is. So how do you come up with something that works for the folks in Sarpy, Douglas, Lancaster, up and down the Platte Valley in some of those counties, and then the rest of the state? We would like to hang out for something more substantial, so we're probably going to be wanting more dollars to go to the Property Tax Credit Relief Fund in order to get real property tax relief. And I would just point out that the last person who took a really substantial run at trying to come up with the tricky business of earnings capacity was sitting in the chair that Senator Schumacher was sitting in right...is sitting in right now. So I don't know whether you do that by chair or how that works but...(laugh) as tasks go, there was a lot of time and a lot of effort put together by Senator Coordsen and it was unfortunate that at the end of his career in the Legislature we didn't get that done. And with that, I would close... [LB813]

SENATOR HADLEY: Thank you, John. [LB813]

JOHN HANSEN: ...and wish you folks a lot of good luck. [LB813]

SENATOR HADLEY: Any questions? Seeing none, thank you, sir. [LB813]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 07, 2014

---

JOHN HANSEN: Thank you very much. [LB813]

SENATOR HADLEY: Any other neutral? Seeing none, Senator Hansen, would you like to close? [LB813]

SENATOR HANSEN: I was shutting my phone off. [LB813]

SENATOR HADLEY: If I'd had known it was going to take you that long to get out of the seat, I'd give you more warning. (Laughter) [LB813]

SENATOR HANSEN: Thank you, Senator Hadley and members of Revenue. It's been kind of a long day and we still have a couple bills to go, and I just want to keep it as brief as possible. Some people think that in 1967, when we did do away with the state property tax, that the state would never have another property tax. But in reality, when we have 120 schools that are getting no equalization aid, the state is saying, through the Legislature and through the Department of Education, you've got to collect property taxes to run that school, so we really do kind of sort of have state property taxes again. And I think we need to do something about it. This is why, you know, I really appreciate the Tax Modernization study this year. Hopefully, that's the last one I'll have to do until the end of my term. But it was good. It was great to see all the people. And I really appreciate the people around here. We had great attendance. Senator Sullivan not only did those but she did the ones in Education. She knows what she's talking about. [LB813]

SENATOR HADLEY: So I would expect her to come up with the answers. (Laughter) [LB813]

SENATOR HANSEN: That kind of...that's what I was hinting at. Thank you. [LB813]

SENATOR HADLEY: Thank you, Senator Hansen. [LB813]

SENATOR HANSEN: Are there any questions, any more questions? [LB813]

SENATOR HADLEY: With that, we will close...I don't see any questions, so with that, we will close LB813, and we will start, Senator Kolowski. Senator Kolowski,... (See also Exhibit 23) [LB813]

SENATOR KOLOWSKI: Yes, sir. [LB913]

SENATOR HADLEY: ...the chair is yours, sir. [LB913]

SENATOR KOLOWSKI: Thank you, sir. I promise this will be short today. [LB913]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 07, 2014

---

SENATOR HADLEY: Okay. We're here to serve you, sir. [LB913]

SENATOR KOLOWSKI: I appreciate that. Ready, all set? Thank you. Good afternoon, Chairman Hadley and members of the Revenue Committee, my name is Rick Kolowski, R-i-c-k K-o-l-o-w-s-k-i, and I represent District 31. I'm glad to be back today to present another avenue for property tax relief. As I mentioned in my testimony yesterday, property tax relief is one of the top issues my constituents want me and the Legislature to address. LB913 brings direct property tax relief to Nebraskans. LB913 provides a nonrefundable income tax credit to qualified Nebraska residents for property taxes paid. The amount of credit shall be the property taxes paid on the primary residence during the tax year but not to exceed \$250 for an individual or \$500 for a married couple filing a joint return. The credit shall not be allowed if the federal adjusted gross income exceeds \$100,000 for an individual and \$200,000 for a married couple. The Tax Commissioner shall develop a form for use by the taxpayer and the Department of Revenue, which provides sufficient proof of ownership, residence, and taxes paid in the tax year. Every biennium the Legislature shall reexamine the amount of such credit based on economic conditions, fiscal conditions, and other relevant factors. Thank you for your time today, and I ask you to hold questions for my conclusion, please. Thank you. [LB913]

SENATOR SCHUMACHER: I guess I'm in charge, huh? [LB913]

SENATOR KOLOWSKI: Yes, sir. [LB913]

SENATOR SCHUMACHER: Any questions at all at this time for Senator Kolowski? [LB913]

SENATOR HARR: We will wait until his conclusion. I never heard that before. [LB913]

SENATOR SCHUMACHER: We will wait for his conclusion. First proponent. We're on proponents now for LB913. Welcome back to Revenue. [LB913]

MARK INTERMILL: Thank you. Thank you, Senator Schumacher. My name is Mark Intermill, M-a-r-k I-n-t-e-r-m-i-l-l, and I'm here today on behalf of AARP. As Senator Kolowski said is true of his constituents, our members are also interested in property tax relief. We...as I've said before, I think what we're looking for...first of all, we want to make sure that there is room for tax relief. We're still kind of waiting for the Economic Forecasting Advisory Board to see what the future revenue estimates look like. But if there is room for tax relief, we believe that there are certain things that should be on the table. This is the type of bill that we believe should be on the table, with some modifications. I looked at the fiscal note and saw that it was \$192 million. I would suggest that we might scale back the program a little bit and maybe at a \$50,000 adjusted gross income level, maybe a \$200 tax credit. I think that would probably

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 07, 2014

---

reduce it down to about 18 or 20 percent of what it, the fiscal note, would be currently. It does provide some direct property tax relief to homeowners, which is something we're very interested in, and we would urge you to put this type of proposal on the table for the things that you consider as you look at property tax...or tax relief type of options. I'd be happy to answer any questions. [LB913]

SENATOR SCHUMACHER: Any questions from the committee for Mark? I just would have one brief note. There is an Attorney General's Opinion dated April 24, 1989, regarding what seems like it might be a similar thing. You probably haven't had a chance and that's not on the tip of your tongue, but I'd appreciate you taking a look at that and seeing whether or not this overlaps with that. That particular opinion indicated it may be unconstitutional. [LB913]

MARK INTERMILL: Okay. Could you give me the...? [LB913]

SENATOR SCHUMACHER: Sure. April 24, 1989, Robert Spire. And I think this is the number of it: 89038. [LB913]

MARK INTERMILL: Okay. All right, thank you. We'll take a look at it. [LB913]

SENATOR SCHUMACHER: Any other questions? Okay. Next proponent. I guess we're still on proponents. Seeing none, we move to opponents of LB913. Opponents, LB913. Seeing none, neutral testimony on LB913. Seeing none, Senator Kolowski, you're open to close. [LB913]

SENATOR KOLOWSKI: Thank you, sir. Also I have no further comments except to thank Mark for his comments about options as far as some reductions in the scope of the original bill that we have presented today, and if that's more palatable in the direction we can go, that will be fine. I guess I look back on Senator Sullivan's comments to me yesterday and she was right on target. If we reduce this, where else would we look and where does it come from? We only have the three pots as we look at where money could possibly come from, and making those major decisions is, of course, the role of the Legislature and what we need to look at and do our priorities and go from there. So thank you very much for your time today. I appreciate getting another idea on the table. [LB913]

SENATOR SCHUMACHER: Any questions? Seeing none, thank you. [LB913]

SENATOR KOLOWSKI: Thank you very much. [LB913]

SENATOR SCHUMACHER: Commander. [LB913]

SENATOR HADLEY: Proponents? [LB913]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 07, 2014

---

SENATOR SCHUMACHER: We're done. [LB913]

SENATOR HADLEY: Oh, we're done. Oh, I thought he was just closing his opening. I know Senator Kolowski is a little long-winded, so I figured that was just the opening. (Laugh) I apologize, Senator,... [LB913]

SENATOR KOLOWSKI: Not a problem, sir. [LB913]

SENATOR HADLEY: ...for those evil thoughts that I must have had. (Laugh) [LB913]

SENATOR KOLOWSKI: You've had a long day, sir. [LB913]

SENATOR HADLEY: (See also Exhibits 25 and 26) Thank you. Senator Dubas. [LB913]

SENATOR DUBAS: Senator Hadley, members of the Revenue Committee, my name is Annette Dubas, A-n-n-e-t-t-e D-u-b-a-s. I represent Legislative District 34. I can't imagine that I can tell any of you anything about property taxes that you haven't already heard many, many, many times over the interim this past year. And at this point I would just like to say thank you to the Revenue Committee and to the Tax Modernization Committee for all of the work that you did over this past summer and fall, and just appreciate the attention staff and everybody gave to the issue, and I think it's given us a lot of information and possibly some directions we can go. And so my thought was when the session started, you know, I've worked on circuit breaker bills in the past and maybe it was just time to dust it off and maybe make a few little revisions to it and throw it out there on the table along with everything else for your consideration, and that's what brings me here today. And I know I don't think there's a senator who has ever campaigned for this position that hasn't heard from their constituents that property taxes are too high and they're frustrated. And it's easy for us to understand what the problem is, but as you heard this past interim, the devil is in the details when it comes to finding solutions. As I stated, I've introduced circuit breaker bills in the past. I did my first year in 2007, and then I did it again in 2012. And the premise behind a circuit breaker is to make a connection between your income and the property taxes that you pay. And when property taxes paid reach a certain percentage of income, some type of credit is issued to the property owner. So for many people this might not be viewed as outright property tax relief because you're still paying the full amount of property tax that is due, but you file on your income tax and then you will either get, in my bill it's a nonrefundable. States do circuit breakers in different ways, so some people may say, you know, this isn't really property tax, but there is a connection between property taxes paid and your income. And I know this particular bill might not be the across the board property tax relief that many people are looking at, but I do think it again puts an idea out there and maybe the people that will be reached through this bill are more of those middle to lower income people, people that maybe have a little bit more of a challenge

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 07, 2014

---

when it comes to paying their property taxes. And again I put this out just recognizing that property taxes are an issue and it's part of the discussion. This approach is also...it doesn't impact the financial resources for local government, so there's no impact on school districts or cities or villages or counties, so some may say that's a benefit because it doesn't impact our local governments and the property taxes, as I said, that are collected. LB1038 provides that nonrefundable income tax credit when the taxes paid exceed 5 percent of the federal adjusted gross income. Now I am sure that the fiscal note has caught your attention, but I think the fiscal note only goes to demonstrate that any kind of meaningful sustainable property tax relief will have a price tag. And it's...as I stated earlier, it's easy to identify that problem. It's the solutions that become a little bit more challenging. I do intend on having some further conversations with the Department of Revenue and those in the Fiscal Office just to make sure I'm understanding what they're basing their numbers off of. And, you know, there could be some potential for a revision in the fiscal note, and if that's the case, I'll make sure that the committee sees those revised numbers. But I just want to have a better understanding of where those numbers came from. But again I think the size of the fiscal note just underscores what it means for real sustainable property tax relief. So with that, I would attempt to answer any questions you may have. [LB1038]

SENATOR HADLEY: Questions for Senator Dubas? Seeing none, thank you. Will you stay for closing? [LB1038]

SENATOR DUBAS: I will. [LB1038]

SENATOR HADLEY: Okay. Are there...first proponent. [LB1038]

JOHN HANSEN: Mr. Chairman, members of the committee, for the record my name is John Hansen, J-o-h-n, Hansen, H-a-n-s-e-n. The day is late. And we are in support of the circuit breaker concept because it's a part of...we think it's a public policy tool. It helps us craft, I think, a better public policy, and I think that it would be a good idea to find out what the Attorney General actually thinks on this, and I think we ought to revisit the issue to find out whether or not we actually have this tool available to us or not. Other states use it. It works there. We need some kind of way to make our tax system fair and balanced. So this is a tool that we have identified and we have liked for a very long time. We'd hate to see it just off the list of things for consideration. And as things come and go, I would be willing to make a wager that as fiscal notes go that they missed the mark on this one. Based on my understating of the numbers and the total amount of dollars that comes in from income taxes, I think the Revenue Department missed this one. So I think that ought to be revisited. I thank Senator Dubas and Senator Kolowski for bringing these kinds of ideas forward. They ought to be a part of the mix as you think about how we respond to the information that we got from citizens relative to the Tax Modernization Study Committee, who I think did a very good job. And so now how do we try to take all of that in and connect all of the dots in a way that helps

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 07, 2014

---

us develop a more fair and balanced state tax system. And with that, thank you very much. [LB1038]

SENATOR HADLEY: Thank you, Mr. Hansen. Questions? Thank you, sir. [LB1038]

JOHN HANSEN: Thank you. [LB1038]

SENATOR HADLEY: Any other proponents? Opponents? Neutral? [LB1038]

RENEE FRY: (Exhibits 27 and 28) Hello again, Chairman Hadley and members of the Revenue Committee. My name is Renee Fry, R-e-n-e-e F-r-y, and I'm the executive director of OpenSky Policy Institute. I'm here to testify neutral on LB1038. While we very much support the concept of the bill, the size of the fiscal note requires us to take a neutral position. Our research has shown that property taxes have been growing significantly faster than any other tax since the late '90s. When property and income taxes are combined, urban residents have paid slightly more than rural residents on a per capita basis over the last ten years up until 2010, although the difference has not been very large. Since 2010, the two taxes combined have been higher in rural areas than in urban areas with rural families now paying about \$169 per year more per person than urban families. And you can see that in the charts that I have handed out. The recent increase in rural property taxes can be largely attributed to rising agricultural land values combined with falling state aid. In fact, in FY'13, agricultural land values were at an historic high, while state aid to K-12 was at a low. So what is the best way to address the property tax growth? As you know, there's no easy answer. We are huge proponents of increasing state aid to reduce property taxes, but we also support targeted property tax reductions for those with high property taxes relative to the rest of the state or high in relation to their income. LB1038 does a good job of targeting relief to agricultural property owners based on income, which should target relief to those who need it most without shifting property taxes to residential and commercial property owners, cutting funding for schools and counties or providing property tax relief to nonresident landowners, as would happen under other proposals. About 18 states have circuit breakers, but from what we can tell only Michigan has a circuit breaker specifically for agriculture. Wisconsin had one for decades but it was recently repealed. Based on historical trends and the recent decline in corn prices, the surge in agricultural land valuation may be temporary, requiring a measured policy response. A policy that permanently reduces agricultural land valuations, for example, may prove to be an overreaction to these trends, ultimately causing more significant local budget shortages and excessive shifts to residential homeowners when agricultural land valuations return to normal. LB1038, on the other hand, would help agricultural landowners weather such temporary surges with less risk of cuts to education and higher residential and commercial property taxes. Instead of being funded from the Cash Reserve or General Funds that might reduce funding for K-12 which would undo much of the intent of the bill, we would prefer to see the legislation funded by the property tax credit program. If

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 07, 2014

---

LB1038 were also amended to bring the fiscal note down to less than \$115 million per year, we would be very supportive. And I would be happy to answer any questions. [LB1038]

SENATOR HADLEY: (Inaudible.) Any questions for Ms. Fry? Senator Schumacher. [LB1038]

SENATOR SCHUMACHER: Thank you, Senator Hadley. Just a couple, Ms. Fry. One, have you analyzed at all that Attorney General's Opinion from 1989 that calls into question this approach? [LB1038]

RENEE FRY: Yeah. You know, I still don't think it's...we've had this conversation. I'm not sure that it's conclusive. I do think it would merit asking the Attorney General's Opinion specifically on this issue. I will say that 18 states have circuit breakers. Most states have a uniformity clause. Specifically if you look at Wisconsin, I think it is, the way that their Supreme Court, when the issue was brought to their Supreme Court, determined that, they determined it was not assessing property taxes differently in violation of the uniformity clause, but that, in fact, it was a welfare provision or, you know, it was relief for a particular group of people. So it was not found to be unconstitutional or a violation of their uniformity clause. Obviously that doesn't apply, it doesn't have any precedent in Nebraska, but that's how it was ruled in one state with the uniformity clause situation very similar to what we have. So I think it's worth looking at and having discussions about whether there's a different way to address it if the Attorney General would come back and say that it's unconstitutional. [LB1038]

SENATOR SCHUMACHER: Thank you. [LB1038]

SENATOR HADLEY: Any other questions for Ms. Fry? Thank you, Ms. Fry. [LB1038]

RENEE FRY: Thank you. [LB1038]

SENATOR HADLEY: (See also Exhibits 29, 30, 31, 32) Anyone else in the opposition? That was neutral. I'm sorry. Neutral, in the neutral? I would like to read into the record an e-mail from Alvin Guenther supporting LB1038; and from Kim Conroy, the Tax Commissioner, in a neutral capacity on both LB913 and LB1038. Senator Dubas, would you like to close? [LB1038]

SENATOR DUBAS: I will be brief. Again thank you for all of the work and attention you've given to this issue. I have had conversations with Revenue Committee staff as well as some others talking about the Attorney General's Opinion and where this bill falls within that Opinion. So again this might be an opportunity for us to get some clarity on the direction we can take our tax policy. So I'm very willing to continue to work on that as well as, as I stated in my opening, visiting with the Revenue Department and

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office

Revenue Committee  
February 07, 2014

---

Fiscal Office about the fiscal note to see if we can maybe make some adjustments. And if there's the potential to move forward with this idea, I would very much want to work with the committee on that. [LB1038]

SENATOR HADLEY: Questions for Senator Dubas? Seeing... [LB1038]

SENATOR DUBAS: Time to go home. [LB1038]

SENATOR HADLEY: We will close the hearings at three minutes till 5. We made it very quickly. Thank you all. [LB1038]