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Revenue Committee
January 29, 2015

[LB162 LB178 LB186 LB259]

The Committee on Revenue met at 1:30 p.m. on Thursday, January 29, 2015, in Room 1524 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LB162, LB186, LB178. and LB259. Senators present: Mike Gloor, Chairperson; Paul Schumacher, Vice Chairperson; Lydia Brasch; Al Davis; Kate Sullivan; Jim Scheer; and Jim Smith. Senators absent: Burke Harr.

SENATOR GLOOR: Good afternoon. I'm Senator Mike Gloor, District 35, which is Grand Island. I'm Chair of the Revenue Committee this year. I'd like to welcome you to our meeting. We will follow the agenda that's been posted in terms of the order of the bill that's been...the bills that have been presented. A few general rules for you, please. Welcome to the electronic age. I'm sure you all have phones, but put them on silent or turn them off, if you would please, so that it's not disruptive to the hearing. This is the order of testimony for those of you who are here to testify. We will start with the introducer of the bill, then we'll go to proponents, then opponents, those who are in a neutral capacity, and then the introducing senator will have a chance to close. If you would like your issues or support or concerns to be heard, you can fill out white forms that are in the back of the room. Register, and we'll make sure those are part of the record. For those of you who are testifying, we need a testifier's form filled out and given to the clerk before you sit down to provide that testimony. You may have copies of items you would like us to look at. We need ten copies, and so if you've shown up with something you wanted them to have, the pages can get those ten copies run out for you, but you've got to give us a little lead time, so please keep that in mind. Please speak into the mike. When you do sit down to testify, give us your name and spell it. We're interested in pronouncing your name correctly, but more importantly, the transcribers upstairs who are doing this need to be able to get the record accurate and get your name down accurately. I have that nagging feeling that I had forgotten something. Oh, I know what it is, and it's right in front of me. We ask you to keep your testimony to five minutes and we have a light system, somewhat like drag racing to help you along those lines. We start with green lights for the first four minutes, because we have a five minute limit, and then the last minute you'll have a yellow light, and then when your time is up, there will be a red light. And if you haven't wrapped up by that time, would ask you to sort of bring things to a summary. Otherwise, I'll have to nudge you in that direction. And with that, I'd like to introduce at least the staff who provide support, and we'll let the senators introduce themselves. Mary Jane Egr Edson is committee counsel on my right; the clerk at the end of the table is Krissa Delka, and our research analyst at the far end on my right is Kay Bergquist. And those are the staff, and I'll ask the senators to introduce themselves starting...today, we'll start with Senator Scheer.

SENATOR SCHEER: Thank you, Senator Gloor. I'm Jim Scheer from District 19, which is Madison and a little bit of Stanton County.

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SENATOR SMITH: Jim Smith from Legislative District 14 in Sarpy County.

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

SENATOR SCHUMACHER: Paul Schumacher, District 22, which is Platte and part of Colfax and Stanton Counties.

SENATOR DAVIS: Al Davis representing Keya Paha, Brown, Cherry, Dawes, Box Butte, Grant, Hooker, Thomas, Loup, McPherson, Blaine, and Logan Counties.

SENATOR GLOOR: Senator Harr will be unable to be with us today and Senator Brasch will be a little late. I believe she is presenting in another committee. Our pages today are Colin, over on the left. Colin is from Wayne. And Donnie...Donnie is from here in Lincoln, and they're here to help you and us. So if you need something, let us know. And with that, we'll start with our first hearing on LB162, Senator Schumacher. Senator Schumacher, don't be such a stranger. [LB162]

SENATOR SCHUMACHER: Thank you, Senator Gloor and members of the Revenue Committee. I'm Paul Schumacher representing District 22 in the Legislature, and this bill is part of our never ending quest to find money for property tax relief for local government financing. The issue of tax sale certificates was once on my mind, big time, when I was county attorney in the 1980s and we had very, very high interest rates available on the commercial market at that time. And then after thinking, you know, this wouldn't be a bad business to get into, I got involved in other businesses and it left my consciousness until folks appeared before this committee a year or two ago and began complaining about a \$20 fee, I think it was, that had to be paid in order to be part of the process of buying these certificates. And it brought back the thought about how things work in the tax sale arena. And basically, we have property taxes. And the property taxes are secured by what amounts to a first lien or a first mortgage on your real estate. They come before everything else and despite the efforts of the Bankers Association, they even come before the bank mortgages. So it's a very powerful lien that's on a piece of property to secure the payment of the taxes. And if you don't pay your taxes on time, then your taxes are sold. And that's kind of hard conceptually to get your head around is, who would buy taxes? You want to get rid of them, you surely don't want to buy them. Well, actually what you're doing is, like you're buying a loan and you are...when you buy a loan, when you buy the taxes, you're entitled to collect the taxes and collect the interest that comes due on the taxes. The way that the loans are basically...or the taxes are basically sold is the county treasurer publishes a list of taxes to be sold and then there is a procedure in which people who want to bid on them get in line and take turns picking up the tax sale certificates that carry 14 percent interest. Once upon a time, 14 percent interest sounded like it might be a reasonable rate of interest to pay. You went out, and

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probably most of you guys were buying houses, you were looking at 8, 9, 10 percent interest, and that's what the market was bearing at that time. If you wanted to save your money, you...a long-term CD, you probably get in the neighborhood of 6, maybe even 7 percent interest and a toaster. So, it was kind of in balance when they said 14 percent is what should be charged for a tax...the taxpayer who is delinquent to pay. There was a good rate of return. A little higher than what you can get on a CD, plus a little bit of bite in the system to encourage the taxpayer to pay for the taxes on time. And life went on. Now, there were times in the 1980s, when I was county attorney in Platte County, when interest rates were quite high. You could probably go to the bank and get 14 percent or 13 percent on a CD in the mid-'80s. People were paying 15 percent, I think, on mortgage loans at that point, but it was very high in the mid-teens. And at that time, some of the tax sale certificates weren't being purchased because there was a better deal at the bank and money that was available would go to buy a CD. And the county got stuck with the tax sale certificates. Okay. Nobody bought them, or not all of them. They still bought some of them because they're still a pretty good deal. But some went, for want of a better, and as a result after I believe it was a three-year period in which these things lay around to mature and the taxpayers got a chance to come in and pay them off with the interest, the county attorney got a list of tax sale certificates that were mature. And you have to have action on them within...it's either 90 days or six months or you get kicked out of being county attorney. And what was almost miraculous when you went through the list, which I think if I remember right Platte County started out like a hundred of them that had not been paid and taken care of. I think the county treasurer sent out some notices saying that they were getting close to maturity and that flushed some of them out. But, of course, your first response is to see how you can collect these things without having to file a lawsuit and you send out letters. The great bulk of them paid. They knew the gig was up, they went and borrowed the money, came up with the money from somewhere and paid off their taxes. The county collected the 14 percent interest. The county was happy. In fact, in all the years I did tax sale certificates, I think we only got down to one or two totally worthless pieces of property that we had to go through the complete judicial proceeding. Some you had to flush out by filing the case with the court and then the sheriff served them with a summons and that spoofed them loose. But, by and large, these things are easy to collect and these things self-collect when people finally realize that the gig is up. Now what has happened since then is that interest rates have dropped way down. It's hard to find anything that will pay you 3 percent that's secured. It may not even approach 3 percent on a three-year term that's secured with a first lien on a piece of property. These things have become extremely lucrative investments in a world of near zero percent interest rates. Okay. And so, what our system is now is the taxes are sold, the people come in and buy them. Some are part of a cooperative group, some individuals, some from out of state, but anyway, they're in the business of buying tax sale certificates and collecting 14 percent interest. They know that the amount of those taxes that are really uncollectible and that they have to go through any money in order to collect is very, very low. It's a good deal. And it's a good deal because of that spread between an arbitrarily set 14 percent and what the market is having for interest. It's a really good profit. Now, we have two

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approaches that we could possibly take on the thing to say, look-it, we're getting the taxpayer to pay the 14 percent and that's really usurious in today's world. It's just really out of this world for interest rates on a first mortgage. Or we could get greedy and we could say, let's see if it's a way that the counties can make some money. Now, if we lower the interest rates to say 6 percent, 7 percent, closer to the judgment rate of interest, would be one way of doing it. That would leave the money with the taxpayer and we could build in a little sting there to make sure that the taxpayer paid the money and didn't allow it to go delinquent. If we took that approach we'd have to amend several other laws and it gets quite complicated because that 14 percent figure is cited in a whole bunch of other laws, including the...what you get paid for interest on a workmen's comp claim that you don't pay off right away. And lots of things are indexed to that 14 percent would be affected if we started messing with the 14 percent. So the proposition before you is rather simple. It's a free market. And you have bidders, instead of just getting in line and not being competitive on price or on interest rate, you have bidders, and it's kind of a reverse auction. Who will take this certificate for 14 percent? And you got ten people who say, yeah, I'll do it. How about 10 percent, until you drop off and sell it? You get the...the county gets its money right then for the principal and it gets the spread on the interest. So if the interest rate that the market is bearing at the time is 6 percent, the county gets a spread of 8 percent and that goes to financing county and offsetting property taxes. Very simple proposition. It says the difference between market, what a fair bidder in a fair environment will say it's worth, and the 14 percent belongs to the county. And if the 14 percent rate on a particular certificate is what it bears, if nobody will bid any lower, nothing has changed. But almost for certain, you will see competitive bidding in this market and the spread go to the counties, in which case there will be additional local revenue, perhaps some property tax relief, perhaps some other spending by the county. But at any rate, it is just simply wrong for the government to be in the middle of sticking the taxpayer 14 percent interest, a clearly usurious rate of interest, and being the enabler for purchasers to purchase what amounts to a windfall in this interest rate economy. That's the pitch. I'll take any questions. [LB162]

SENATOR GLOOR: Senator Schumacher, and I'm guessing in testimony we'll find this out one way or another, but have the counties contacted you? I would...certainly there is the upside from a revenue standpoint, but I wonder about the counties' abilities, the clerks' abilities to be the wrangler over this bidding process, especially in some of our smaller counties, although it may not happen often. Procedurally, is this something that can be pulled off fairly with some degree of uniformity? [LB162]

SENATOR SCHUMACHER: I think they've got a bidding process now, but it's what they call round robin where they draw numbers to get in line to buy them. And so there's a bidding process in place now. Back when I was county attorney, I think it was before the round robin thing, and the county treasurer sold those things...I'm not sure if there's actually an auction or you went in and bought the things, but they handled them. This is the kind of thing where the

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counties would make money on it. I've talked to Larry Dix in regard to this. I assume that would be a fair question for him, but it shouldn't be any more difficult than the fishbowl type drawing or whatever they do now for this round robin thing. And as far as the collection of it, I think it would be very worthwhile for the counties in their revenue. [LB162]

SENATOR GLOOR: Okay. Other questions? Senator Sullivan. [LB162]

SENATOR SULLIVAN: Thank you, Senator Gloor. Thank you, Senator Schumacher. Always can count on you to get our minds working. How long has the 14 percent rate been in place? Do you know? [LB162]

SENATOR SCHUMACHER: Way before I was county attorney, so that would be way before 1980. And that was the number then. I don't think it has changed for a long, long time. [LB162]

SENATOR SULLIVAN: So probably even before the '80s. [LB162]

SENATOR SCHUMACHER: Yeah. I guess we could look that up in the book, but it's been a long, long time. [LB162]

SENATOR SULLIVAN: Okay. Now clarify for me, because you really kind of offered two alternatives. One is to keep the round robin and the counties to retain the spread or the other approach... [LB162]

SENATOR SCHUMACHER: No, not keep the round robin. [LB162]

SENATOR SULLIVAN: Oh, get rid of the...okay. [LB162]

SENATOR SCHUMACHER: Right. And the counties auction...a reverse auction...and the counties keep the spread. [LB162]

SENATOR SULLIVAN: Okay, but the first alternative was to just... [LB162]

SENATOR SCHUMACHER: Lower the tax rate. [LB162]

SENATOR SULLIVAN: ...lower the tax rate. [LB162]

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SENATOR SCHUMACHER: Or the interest rate, rather. [LB162]

SENATOR SULLIVAN: The interest rate. Do you have a preference? [LB162]

SENATOR SCHUMACHER: This one generates revenue and the other way influences a bunch of these other statutes that are tied into it. And I know, for example, on the 14 percent on the workmen's comp thing, you have the business interest saying, we want that interest rate to be low, on that side of the argument, and the people who collect workmen's comp saying we want it to be high so the businesses who have got a judgment against them don't run us around while they're on appeal. And I know when I made an effort a couple of years ago to lower that interest rate to--I forget what it was, 7 percent, 8 percent if I remember right--Senator Lathrop in Business and Labor Committee came pretty much unglued about the idea of messing with that workmen's comp rate. And I think there's a lot of other things that are indexed to that 14 percent. [LB162]

SENATOR SULLIVAN: Okay. Thank you. [LB162]

SENATOR SCHUMACHER: So it complicated quite a bit. [LB162]

SENATOR SULLIVAN: Okay. Thank you. [LB162]

SENATOR GLOOR: Senator Scheer. [LB162]

SENATOR SCHEER: Thank you, Senator Gloor. Listening to you, Senator, you were talking about the outrageous 14 percent in the market, but you're not doing anything about that. I mean, you're just making the county profit off the pain of the individual instead of free enterprise. Is that a fair assessment? [LB162]

SENATOR SCHUMACHER: The county gets the spread, somebody gets the spread. So the question is who gets the spread? Free enterprise...or not free enterprise, the private investor, or the public entity. We could lower it and take that approach. But that's what we're talking about. [LB162]

SENATOR SCHEER: Well, I understand but, I mean, under your...they're still going to feel the pain... [LB162]

SENATOR SCHUMACHER: They're still going to feel the pain. [LB162]

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SENATOR SCHEER: ...so we really aren't helping the individuals at all, it's just who's going to be collecting the funds. [LB162]

SENATOR SCHUMACHER: That's kind of what this approach does. [LB162]

SENATOR SCHEER: Okay. Thank you, Senator Gloor. [LB162]

SENATOR GLOOR: Senator Davis. [LB162]

SENATOR DAVIS: Thank you, Senator Gloor. So, Senator Schumacher, always interesting ideas come out of your head. Have you done any study as to how much this might generate, say in your county? [LB162]

SENATOR SCHUMACHER: No, I haven't, but... [LB162]

SENATOR DAVIS: I mean, do you know how much property, appraised property is out there and what those taxes are? [LB162]

SENATOR SCHUMACHER: I don't know how much money it will...would generate. Maybe if Mr. Dix testifies, maybe he'll be able to come up with a number. Right now because interest rates to borrow money is so low, you...the people who are delinquent on the taxes really aren't very responsible at all if they don't go to the bank and borrow the money rather than let the 14 percent, no matter who collects it, toll on them. And so I would think that the number of delinquent taxes may well be very much down unless you have a period of economic downturn where the people legitimately can't pay their taxes rather than neglect to pay them. [LB162]

SENATOR DAVIS: So, in my part of the state when the delinquent tax list comes out in the paper and it's always rather difficult to track what that is unless you have a city map because it's first edition, second edition, but in large part the parcels are not desirable parcels. So I was just wondering if you're not going to suppress the purchase of these deeds by entities, which, you know, the county does benefit by that because they do get the revenue. So that property could, instead of being sold for taxes, it may sit there for three or four or five years in the process in which the county doesn't get any taxes. So it would have...then the county obviously would gain from that down the road if they were able to sell it, but I'm assuming that probably it might not bring that 14 percent to them. I don't know if you've thought that through or not. [LB162]

SENATOR SCHUMACHER: Well, I think I have on that...they'll get...if it doesn't liquidate out at three years times 14 percent interest plus the principal, then the property was probably

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overtaxed to begin with, because you should be able to get at least one year's tax payments or your three years actually, because taxes continue to run on it. If there's over three years tax payments, it's probably overvalued. But in my experience, and we had some kind of marginal pieces of property, they pay off. Very few owners will walk away from a piece of property unless it's totally worthless. And part of the business, or the situation of buying these things, you don't bid on them unless you're pretty sure you're going to get your money out. And the counties, the ones that don't sell, the county gets stuck with anyway. [LB162]

SENATOR DAVIS: Thank you. [LB162]

SENATOR GLOOR: You know, if you spend enough time at auctions and you've got your eye on a nice piece of...a china cabinet that's an antique, etcetera, and then in walks a big antique dealer from Omaha that you know has much deeper pockets than you are and your heart sinks because you know you're not going to get that, aren't we running the risk that what's going to happen here is that the people with the deepest pockets, big groups, big out-of-state groups are the ones who can always bid it down because they can handle a bigger book of business that minimizes their risk? And, I mean, I'm asking what appears to be one of the obvious unintended consequences and that is, it makes it harder for smaller people who want to participate in this to really participate. [LB162]

SENATOR SCHUMACHER: I think a lot...most participators are not small little guys, they have access to deep capital pockets. And if you say, look at the bidding down process, there is somebody who could bid it down more, that's more money for the public till. I mean, let's be real frank about it, this is about getting some money for the public till and divert it...that is now unnecessarily leaving the public sector and paying extremely high interest rates. This is about capturing some money. [LB162]

SENATOR GLOOR: Okay. Senator Scheer. [LB162]

SENATOR SCHEER: Senator, I'm trying to think back, but didn't we do something in relationship to this last year? [LB162]

SENATOR SCHUMACHER: If I remember right, it was a question of...not on interest rates, but we did something with the mechanism for this round robin bidding process, which has nothing to do with the economics of it, it's just the mechanism of bidding. And the other thing, I think we rejected on the floor the idea that the taxpayer would have to reimburse the bidder some application fee of twenty bucks or something. They came in and... [LB162]

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SENATOR SCHEER: The process sort of revetted within the last year or two. [LB162]

SENATOR SCHUMACHER: But not the money side of it. [LB162]

SENATOR SCHEER: I understand, but the process was. And I'm assuming the money was discussed. Now maybe they chose not to change it, but the process was reviewed with at least the parties that would be normally involved in revamping the process, you know, NACO and others would have been involved. Would that...? [LB162]

SENATOR SCHUMACHER: I think the fair statement on that is the mechanism was looked at, the money interest rates, whether or not this was not looked at. [LB162]

SENATOR SCHEER: Okay. Thank you. Thank you, Senator Gloor. [LB162]

SENATOR GLOOR: I don't see any questions right now. [LB162]

SENATOR SCHUMACHER: Thank you. [LB162]

SENATOR GLOOR: Thank you, Senator Schumacher. We'll now move to proponents for the bill. Good afternoon. [LB162]

BETH BAZYN FERRELL: (Exhibit 1) Good afternoon. Chairman Gloor, members of the committee, for the record, my name is Beth Bazyn, B-a-z-y-n, Ferrell, F-e-r-r-e-l-l. I'm with the Nebraska Association of County Officials appearing here in support of LB162. We'd like to thank Senator Schumacher for including us in his never-ending quest to find money for local governments. We appreciate all of the efforts that he's made that involve funding for counties. I wasn't planning to hand this out, but in the interest of how the discussion has gone, I have a copy here for you of a document that I put together a few years ago about what the interest rate...the 14 percent statute, all of the sections of statute that that is tied to. The discussion had been that the workers' comp rate also reflected the 14 percent delinquent tax rate. So I will share this with the committee. [LB162]

SENATOR GLOOR: We'll get copies made probably after the meeting and get them out to folks. [LB162]

BETH BAZYN FERRELL: Okay. I'd just like to address a couple of the questions that came up. Senator Davis, you had asked whether we had any data about the number of sales that would be

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involved. We do not have any data at this point. It would be completely dependent upon how many of the sales were bid down. I know that the number of parcels in counties varies. For example, in Banner County, they only had six parcels to sell. So it's going to be very dependent upon, you know, a number of factors and how they would come into play. I think...I'd be happy to answer questions. Most of my testimony, Senator Schumacher did a great job of explaining how the process works. So I'll just open myself up to questions. [LB162]

SENATOR GLOOR: And I would ask you the same question I asked Senator Schumacher and that is, so there's certainly a windfall but only for those counties where they have that opportunity and it would happen so infrequently. Is this going to be seen as some sort of a mandate that creates work without an appropriate amount of financial compensation to make it worthwhile? [LB162]

BETH BAZYN FERRELL: That's a good question and I think it's going to vary depending on how many investors choose to bid down the interest rates. There would be programming involved and some cost related to that. There would be sort of up-front costs and all counties that have a particular vendor for software would share in that. So there...it's hard to predict what that would be at this point. [LB162]

SENATOR GLOOR: Okay. Other questions? Senator Davis. [LB162]

SENATOR DAVIS: Thank you. Well, not wanting to impose a lot of burdens on NACO, but it would be interesting for this committee to know the amount of the dollars of sale that are generated across the state through these tax sales every year. Is that something that would be possible for you to get? [LB162]

BETH BAZYN FERRELL: I think we could probably come up with that. I'd be happy to look at it. Something that we might find interesting. Last year there was legislation that was passed that required all county treasurers to submit to the property tax administrator a report of delinquent taxes. And just today there was a press release with information about what the treasurers needed to submit. And I'd be happy to forward that to your office as well. [LB162]

SENATOR DAVIS: That would be great. Thank you. [LB162]

SENATOR GLOOR: Senator Scheer. [LB162]

SENATOR SCHEER: Thank you, Senator Gloor. My concern is that the county is, by virtue of its entity, charging part of the taxes. Not all of the taxes that would be delinquent, I understand.

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School districts, or weed authorities, or whatever else may be in that amount that we charged. But clearly the individual that's not paying them at 14 percent probably is not in a very good financial position. It's one thing for private entities to be able to profit, so to speak, on someone else's ills, but do you really feel comfortable as a county when someone can't pay the first fee that you charged them, profiting or making additional funds off their inability to pay the first part that you couldn't? [LB162]

BETH BAZYN FERRELL: That's a good question. I guess at this point, there are some of those parcels that haven't sold that the counties have over the years collected the 14 percent on if they then sell later. I mean, if they haven't sold to investors to begin with and then the person comes in and redeems, the counties would have collected 14 percent. So there would be a few of those. I guess... [LB162]

SENATOR SCHEER: But that's the exception, not the rule, but wouldn't we say. [LB162]

BETH BAZYN FERRELL: Yes. And... [LB162]

SENATOR SCHEER: I mean, it just doesn't sort of sit right with me. I mean, you know, the world lives on profit, I get that, but when we turn a county that has partially...has part of those funds that it's collecting are it's own, as well as other entities, I get that, so it's not just counties. But when an individual can't pay that to begin with and then for the counties to profit above and beyond that because of somebody's hardship, I don't know, that just doesn't seem quite right to me. [LB162]

BETH BAZYN FERRELL: I'm not sure how to answer. [LB162]

SENATOR SCHEER: There's no response, I'm sure. Thank you. Thank you, Senator Gloor. [LB162]

SENATOR GLOOR: Senator Davis. [LB162]

SENATOR DAVIS: I've got one more question. I'm following up on Senator Scheer. So if the property, if a delinquent property doesn't sell to an investor, does the county recoup the 14 percent? [LB162]

BETH BAZYN FERRELL: That would depend on whether the individual came in and redeemed it or not, but... [LB162]

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SENATOR DAVIS: Well, let's say the individual did come in and... [LB162]

BETH BAZYN FERRELL: If they did come in? [LB162]

SENATOR DAVIS: Yes. [LB162]

BETH BAZYN FERRELL: Yes. [LB162]

SENATOR DAVIS: So, in fact, what Senator Scheer says is already in effect except that private industries is coming in instead and buying loans and making the profit, correct? [LB162]

BETH BAZYN FERRELL: Yes. [LB162]

SENATOR DAVIS: Thank you. [LB162]

SENATOR GLOOR: Seeing no other questions, thank you. Other proponents? Seeing none, we'll move to opponents of this bill. Good afternoon. [LB162]

DEANA WALOCHA: (Exhibit 2) Good afternoon, Senator Gloor. Senator Gloor, members of the committee, my name is Deana Walocha, and I am in-house counsel for US Assets, LLC from Omaha, Nebraska. And we are a tax lien purchaser. The testimony that I have is pretty lengthy, so I just went ahead and typed it out and... [LB162]

SENATOR GLOOR: Excuse me, Ms. Walocha, can I ask you to spell your name, please? [LB162]

DEANA WALOCHA: Sure. It's Deana, D-e-a-n-a, and Walocha, W-a-l-o-c-h-a. But...and it would take a long time to go through all this so what I want to do is just kind of give you a brief summary and kind of hit the major points of what we feel is important when considering this legislation. First of all, the tax sales system has been revamped within the last three years. We worked with Senator Wightman on LB341, which was introduced to the Legislature in 2012...I'm sorry, 2013. And this actually followed...the year before there were several bills introduced in 2012 that would have changed the tax procedures. The first one was LB370 and that proposed to abolish tax deeds. And LB1069 was introduced to abolish the bid-down procedure basically. What it did was...would change to the system to where the purchaser would bid on a premium above the taxes. And the highest one would be the winner at the auction. And there was also LB967 which was introduced to lower the tax rate to 10 percent and I think Senator Schumacher

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did briefly talk about that. But following the introduction of all these bills, LB370 was the only one that was passed and it was passed as amended. And they retained the tax deeds and what they did was they added new procedural mechanisms to protect the property owner so they got more notice before they would lose their property to taxes. But the remaining bills were all indefinitely postponed and then there was an interim study that was done. And following that interim study is when Senator Wightman introduced LB341 and that was in January of 2013. And what LB341 did do was it got rid of the bid-down procedure at the tax sales. Prior to that, I think for over 100 years, the sale procedure was the people at the sale would bid down an interest...ownership interest in the property. And the treasurers wanted that changed because they found it to be too complicated. The sale was complicated. Then after the certificates were purchased, it became complicated. And then issuing the deeds was complicated because you just have an interest in the property but not the whole property. So then you would have partition actions and just led to more legal fees and legal actions. Another thing it did is, it increased the fees that the county receives for their work at the tax sale. There was a bidder registration fee that was enacted, \$25 now per bidder when you attend these sales. And the fees for the certificate issuances, the deed issuances and assignments were doubled from \$10 to \$20. And these are all fees that are retained by the county. In fact, the \$20 certificate issuance fee is not refundable to the certificate holder, but it is collected from the property owner if they redeem the taxes. And that's in 77-1824. So there is a question now if the county is going to get that twice because of the way it was written. But we feel...and most importantly these changes did not start until January 1 of this year. So the product of LB341 hasn't even begun. It's been on the books for 28 days. The first sale that's going to be affected by all of these isn't until March 2nd of this year. So we feel that there was a lot of time and effort and thought that went into the changes that were previously made. There was cooperation between the county and the private investor and lienholders, and we think they ought to be given an opportunity to take effect before we change it up again. If there are any questions, I'd be happy to... [LB162]

SENATOR GLOOR: Senator Davis. [LB162]

SENATOR DAVIS: I just have some procedural questions, I guess. Tell me...so the property comes on the market, it's advertised in the paper, so then tell me how the whole thing takes place from there. [LB162]

DEANA WALOCHA: I know it has to be advertised for a certain amount of time. I don't know off the top of my head what that is, but the tax sale is held in Nebraska the first Monday of March of every year. [LB162]

SENATOR DAVIS: In the county or in the... [LB162]

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DEANA WALOCHA: In the county. And it's every county holds the sale on the same day, basically at the same time. [LB162]

SENATOR DAVIS: So do you have to be in the county or can you do it over the Internet, or...? [LB162]

DEANA WALOCHA: Douglas County is on-line. That is the only one I know of for sure. All the other counties, you have to be in the county. I mean, I, myself, have gone to Cass County for several years. And you're in a room and the way that Cass County has done it was almost like a round robin because they would sit you in order and it was just kind of snake down on the order. [LB162]

SENATOR DAVIS: So there would be a list of properties and we've got five bidders... [LB162]

DEANA WALOCHA: Well, when it was...yeah. [LB162]

SENATOR DAVIS: So bidder A is the first one who gets the first choice out of this list and then on down? [LB162]

DEANA WALOCHA: Correct, and in the past they would have bid down on the interest of the property, but that was complicated. [LB162]

SENATOR DAVIS: So how did that work? Tell me how that worked. [LB162]

DEANA WALOCHA: Whoever was willing to take the lowest percentage ownership would take the certificate. So then if the certificate didn't mature, then they wouldn't have 100 percent interest in the property. They would only have like 1 percent. I think as my property professor would say, they wouldn't have all the sticks, they'd just have one of the sticks. [LB162]

SENATOR DAVIS: And that was eliminated, is that correct? [LB162]

DEANA WALOCHA: Yes, but this upcoming sale is the first one. [LB162]

SENATOR DAVIS: So now run by me the new process again. [LB162]

DEANA WALOCHA: I think the new process as best as I can tell, and it's only a suggestion, the county does not have to have a round robin, but if they are going to have a round robin, the

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statute lays out how it works. And I think it works probably a lot like they've done in Cass County where everybody draws a number. All the bidders draw a number and that's the order that you go down. And if you want the property, you say yes, if you don't, they move on to the next one until all of the properties are sold. And I will tell you, there are several times in those rooms when the properties do not sell and the county will end up with them and they will have to do foreclosures on them, because I've been doing this for 14 years and I've probably in that time filed over 1,000 foreclosure actions. They're not self-collecting at all. A lot of them redeem, but a lot of those redemptions come after the suits are filed. [LB162]

SENATOR DAVIS: So what kind of expenditures do you have to make when you do a foreclosure action? [LB162]

DEANA WALOCHA: Our first step is we order a title search. So lien searches average somewhere about \$150, I think, because everybody that has an interest in that property is entitled to notice of this foreclosure because if you don't notice them, then their lien can't be wiped out. And then there's filing fees with the courts and service fees for all the property...persons that get served; publication fees, generally. If it goes to sale, if we get the decree and it goes to sheriff's sale, there's more publication fees. There's costs of the sheriff's sale, and then paying the attorneys. So it could get quite extensive, the cost can. [LB162]

SENATOR DAVIS: So you have a fairly significant expenditure in those kind of transactions? [LB162]

DEANA WALOCHA: Yeah, and it's time consuming. [LB162]

SENATOR DAVIS: Any idea on the percentage of transactions like that, how many percentage of your total purchases would go to foreclosure? [LB162]

DEANA WALOCHA: I think it's about 25 percent. Scott Makinster is going to testify after me and he would know better. [LB162]

SENATOR DAVIS: Okay. Thank you. [LB162]

SENATOR GLOOR: Let me follow along that line of thought that Senator Davis had. On the bottom of the second page of your handout, you talk about the fact that some states...I mean, your comparative information in terms of percentage rate, some states provide for guaranteed return on investment. And then it goes on to say that tax lien investors lose money on between 30 to 40 percent of the certificates that they buy? [LB162]

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DEANA WALOCHA: That's because they redeem so quickly. I think 30 to 40 percent of the...at least it's been our experience and Mr. Makinster will be able to testify more accurately to this, but they redeem so quickly that there's just not enough time for them to accrue interest so that that...the cost of acquiring them is outweighed by the interest. There just isn't enough time. [LB162]

SENATOR GLOOR: Okay. Thank you. Other questions? Senator Sullivan. [LB162]

SENATOR SULLIVAN: Thank you, Senator Gloor, and thank you for your testimony. So short of what you had indicated earlier that you would prefer to let this new arrangement that we instituted last year work, but what if this were in place? What sort of impact would it have on your business? [LB162]

DEANA WALOCHA: It would have a very negative impact on our business. The company that I work for predominantly forecloses on our liens judicially, because in Nebraska there's two ways to foreclose on your lien. You can either go for a treasurer's deed to the property or you can judicially foreclose on your lien. And when you judicially foreclose on your lien, it ultimately goes to sheriff's sale and the certificate holder just gets back their principal, their interest, court costs, attorney fees, and then anything above that from the sale of the property goes to other mortgage holders, other lienholders, or ultimately to the property owner. So the certificate holder does not get the equity in the property when it's judicially foreclosed. But if this would happen and they would start losing income off the interest, they would have to look to the other way to make up for that income and probably would result in more treasurer's deeds and that equity being lost or forfeited, I guess, to the certificate holder. [LB162]

SENATOR SULLIVAN: Thank you. [LB162]

SENATOR GLOOR: Thank you for your testimony. [LB162]

DEANA WALOCHA: Thank you. [LB162]

SENATOR GLOOR: Other opponents. [LB162]

SCOTT MAKINSTER: Senator Gloor and members of the committee, my name is Scott Makinster. The spelling of my name is M-a-k-i-n-s-t-e-r, and I'm an owner and managing member of US Assets, a tax lien company that's purchased tax liens for the last 22, 23 years. Three reasons US Assets is opposed to this change in the legislation into LB162: One is, is what Deana Walocha, our in-house counsel, has talked about is industry, accounting, and legislative

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people have all gone through and reworked the tax sale process. And I think we feel like that process has...a compromise has been made by all the parties. I know the cost associated with the fees and everything else will have an impact, as we talked about beforehand. It would be our estimates this year, somewhere between fifty to seventy thousand dollars in additional fees our company will have to pay to attend the sales and to buy the certificates that we buy. And so, I think we have found ways to put more revenue into county government without doing it through this bid-down interest process. Another reason for opposing the LB162 is the fact that if you go to an interest rate bid-down, what we have found in other states that we operate in, cheap money wins the battle. And I do not believe the cheap money will be coming from Nebraska investors. I think those people will be institutional buyers out of the big markets in New York and hedge funds and stuff like that. If you look at Florida, and there's a lot of articles written about it, they have gone in and dominated that industry. They have little or no cost to their funds and so they come in with hundreds, if not thousands, and tens of thousands that come east to flood the sales, and I don't believe investors from outside of Nebraska will treat people as we do here in Nebraska. And the final part of that is, is the following up on the fact that the foreclosure process, there's two ways in Nebraska. One is the judicial. The other one is a tax deed system. We have ultimately, almost exclusively, gone the judicial process and that is where we go to a sale, people are noticed, lienholders are noticed, it's a longer process, a lot more noticing is being done in there, and when it comes time for a sale, when the proceeds of the sale takes place, we get paid our fees, but any money left over goes to, as Deana was saying beforehand, lienholders and possibly ultimately the property owner. If, again, we change the profitability of the interest side of this business, then we have to start looking at other ways to try to bolster it up from the other side. I also want to talk a little bit about the fact that this business isn't like walking down to a bank, handing them a check and saying, I want a CD for three years. There are extremely a lot of moving parts to this business and there are costs. And I think they brought up the fact of the certificates we will buy in the upcoming sale in March in Nebraska, based on our calculations of the new fees, the new costs, and the competitiveness of this market here, somewhere between 30 and 40 percent of the certificates we'll buy, we'll lose money. And the reason for that is they will redeem within that first three or four months. We'll have acquisition costs, publication costs, research costs, all that will be front-end loaded, our costs up-front, we'll buy a certificate, and we have to research tens of thousands of certificates to ultimately buy. Our company may buy approximately 2,000 certificates in the state of Nebraska. To buy 2,000 certificates, and all that front-end cost is there, they come in and redeem and the interest is paid on the daily accrual. So if somebody comes in the second day, any money we've had associated for those fees are gone. If they come in the second month, third month, again, we're actually losing money on those investments. And so, again, these are the reasons why we oppose. It's...we've done this before. We've looked at it. We think that the system should get a full cycle before we come back. The tax certificate cycle is about a three-year process from the time you start to the time you go through foreclosure. We've been more than willing to work with this committee and others to change or make better the process. And my hope is that we'll look at, as

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we go along, maybe keeping this system in place for a while until we can see the ramifications of it. Again, I really believe what we're heading down is a path to bring people...the outside money into this marketplace and I don't think that's the best interest of Nebraska. And then, finally, the people who are here will probably have to change the way we do our business. Again, if you remove the profit in the one area, we're going to probably have to shift it to another area, and we prefer not to do that, so. Any questions? [LB162]

SENATOR GLOOR: Thank you. Other questions? Senator Davis. [LB162]

SENATOR DAVIS: So you talked about the judicial approach, but tell us about how the treasurer's sale works and why you wouldn't go that way if it's less expensive? [LB162]

SCOTT MAKINSTER: The treasurer's deed? [LB162]

SENATOR DAVIS: Yes. [LB162]

SCOTT MAKINSTER: In going that way? Our company...and we do that in other states, but here in Nebraska the reason for going to judicial sale process is that we prefer not to acquire real estate. Once you acquire the real estate, even though there's profitability in the states where we do go after real estate, we have some additional profits there greater than the states that we don't try to go after real estate, but it takes more time, more manpower. This is our home state, too. That probably has some difference on it also. We do receive some additional fees back as far as for legal fees so we reclaim some of those extra costs. [LB162]

SENATOR DAVIS: With a judicial approach rather than a tax fee. [LB162]

SCOTT MAKINSTER: Yeah. And so we preferred that and the only times where we have not done that...we work with Habitat for Humanity and we...in the beginning we worked with them and we'd buy certificates on their behalf and then foreclose and deed them the property through a tax deed. Now, we're currently working with them where they have their own portfolio where we're buying it on their behalf and managing their pool and then we will be doing those, but outside of that we haven't gone that route, so. [LB162]

SENATOR DAVIS: Thank you. [LB162]

SENATOR GLOOR: Senator Sullivan. [LB162]

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SENATOR SULLIVAN: Thank you, Senator Gloor. And you may have already answered my question in part with Senator Davis', but you mentioned that with this proposed legislation there might be a shift to outside people coming in that would treat the property owners differently. What exactly do you mean by that? [LB162]

SCOTT MAKINSTER: Yes. Well, for our company anyway. If somebody comes to us and says we can't pay it, we don't want you to send our property to the sheriff's sale, we'll set up payment plans. And it's under judicial, through the judicial process. We can set up payment plans and allow them to pay over a period of time. More than likely, and I can...maybe they'll do that, too, but I doubt they'll look at it that way. If the value is in the property, send it to sheriff's sale and not worry about it. Even when there's clearly value there, if they'll put it on a payment plan and it can be judicially, you know, monitored, and we don't lose our right to take it to sheriff's sale if we have to, we do payment plans all the time, so. [LB162]

SENATOR SULLIVAN: Thank you. [LB162]

SENATOR GLOOR: Senator Scheer. [LB162]

SENATOR SCHEER: Thank you, Senator Gloor. I'm not sure that you were or you weren't, but in the process that where they were revamping the process and perhaps rather than the payments, so to speak, was your business part of any group that met to review and revamp the process? [LB162]

SCOTT MAKINSTER: I know we worked with Senator Wightman on the process. We were not...there were some bills out earlier and we really have not gotten actively involved in this process until here the last couple of years. And it was really the bill that Senator Wightman came out with and we worked with them more towards the tail end. And then we decided that it's probably necessary for us to be more active and come down and tell our side of the story. And again, I think part of this is that there's this perception like there's, you know, it just rains money on us. It doesn't. There is lots of costs associated with it. In a portfolio of buying certificates when you factor all overhead and everything else that goes...costs some money that we have and all those things, you know, if we end up with buying a million dollars worth of certificates, roughly 2.5 percent is what we'll get off of that buy, a profit that year. And now that's residual the next year and such, but that's what it ends up being for us as the asset. And so, it's not a huge...again, it's not...it's good. Clearly, we do make money, but it is not the windfall that a lot of people perceive that aren't in this business day in and day out. From the outside it looks a little different than from where we see it inside. [LB162]

SENATOR SCHEER: Okay. Thank you. Thank you, Senator Gloor. [LB162]

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SENATOR GLOOR: Seeing no further questions, thank you, Mr. Makinster. [LB162]

SCOTT MAKINSTER: Thank you. Appreciate it. [LB162]

SENATOR GLOOR: (Exhibits 3-5) Other opponents. And by the way, let me read into the record, we have letters of opposition from Mike Kuzma, KL Capital, LLC; Ryan Hanzlick, on behalf of himself; and Ross Pesek from Pesek Law Firm, LLC. Good afternoon. [LB162]

RYAN HANZLICK: Hello. I'm Ryan Hanzlick. Yeah, I sent that letter before I realized I had time today to come. Last name, H-a-n-z-l-i-c-k, and I live out in the country between Wilsonville and Hendley, Furnas County. I am a small-time tax investor also, nowhere in the league with US Assets. When I go out and I buy a set of certificates, I have just as much opportunity as anybody else in the community to go buy. If somebody else wanted to show up and buy one certificate, you know, if they're from my town, they could show up and they can buy a certificate. I started with no idea how to do this in the business, and I'm trying to work my way up. The way it's set right now is not necessarily something that's only beneficial for the big companies. If I'm lucky, I go to a tax sale and I might get four or five tax certificates, four or five properties. Out of those, let's say five properties, about 20 percent of what I've seen, I'll have redeemed within the first month. If I buy a certificate that costs \$600, I've got \$20 for the certificate fee and my \$25 registration fee split among those five certificates, I've got \$25 in fees that are nonrefundable. And that doesn't have anything to do with my time or my travel expenses. Just the \$25 fees that I've got into that certificate, I don't break even until I think it's the 64th or 65th day. And I agree with their numbers, 30 to 40 percent of all of them get paid off before we actually break even. When you put them into a pile and you call it your portfolio--I don't know if I can do that with five certificates--but when you call it a portfolio, the 14 percent is kind of a mislabeled number. It's nowhere near that. If I'm...have 20 percent of what I get pay off early, I lose money on those, I hold the rest until they pay off. By the time it's all said and done, I may end up with maybe 10 percent, if I do well. Now, I have bought some, they have a fire. This isn't a guarantee. This isn't a secured interest other than the property. If they have a fire and I put \$4,000 in property tax into the certificate and when they get done the lot is worth \$2,000, you know, I'm out. There's nothing left for me. And I have bought some of those where I lost money over the whole year regardless of the few that did pay off and make interest. I think it was...it was LB341, LB341 that Ms. Walocha mentioned increased the certificate fees from \$10 to \$20. And it also added another \$20 fee to the property owner. I would feel like that that's something needs addressed before this, the \$20 fee from the owner and the \$20 fee from the person that gets the certificate, and the owner is already paying a \$2 redemption fee. It feels like a double-whammy for the owner. There are some other states that do this. They mentioned Florida. The one that I looked at was Arizona. In Arizona, they have a top rate of 16 percent. None of them sell for that. They all sell for low, low amounts. If it goes below 14, I can't borrow money and do it. If we go to bid down like this, I will be out of business, plain and simple. The ones that...the junk properties that I end up buying,

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somebody is going to get stuck with those and it's not going to be them. If they're out of the business, if the rates go down to 2 percent, it's not going to be me, it's going to be the county. I'd be curious to know if the county attorneys have all looked at this to see whether they can afford to handle 20 percent more county certificates, or whatever the number happens to be. That's pretty much all I've got right now. Any questions? [LB162]

SENATOR GLOOR: Thank you, Mr. Hanzlick. Are there any questions? Senator Davis. [LB162]

SENATOR DAVIS: Thank you, Senator Gloor. Mr. Hanzlick, you're from Furnas County? [LB162]

RYAN HANZLICK: Yes. [LB162]

SENATOR DAVIS: So I'm assuming...I know Furnas County is a pretty rural county... [LB162]

RYAN HANZLICK: Very. [LB162]

SENATOR DAVIS: ...not dissimilar to what I deal with. Tell me what your typical properties are like. [LB162]

RYAN HANZLICK: Well, you've got two different piles. You've got your agricultural stuff and you've got your residential stuff. Very, very little commercial in Furnas County. The agricultural stuff is pretty much a guarantee. You're not going to lose your value on ag over a three-year period of time. It's...the majority of what you get in those counties is the agriculture stuff, but the agriculture stuff hardly ever comes up for tax foreclosure. Some of them will ride it to the end, but the majority of those will pay it off fairly quick. The other thing that's not written in the statutes but some of the treasurer's do it anyways, some of the smaller county treasurers they don't like to have a big pile of taxes on the role. They'll send out notices as soon as they issue a certificate, they'll send out a notice to the property owner. Well, if they forgot about it, immediately they're in there paying it. Now that's kind of a bummer in some of those counties that do that for me because I'll lose money big time, big time, not compared to some other people, but for me, it's a big loss. You know, I don't have a chance but once a year to do this, so. [LB162]

SENATOR DAVIS: So these ag properties are oversights primarily. Would that be correct? That they just forgot to pay the taxes. [LB162]

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RYAN HANZLICK: Most of the time, either oversight or estate issues or something, yeah. [LB162]

SENATOR DAVIS: And so tell us a little bit about the residential property. [LB162]

RYAN HANZLICK: A lot of the residential properties in the rural areas are, I should say... [LB162]

SENATOR DAVIS: I think I know, but I want you to say it for the record. [LB162]

RYAN HANZLICK: You know, but you want me to tell you. A lot of the ones that end up going, at least all the way to foreclosure, are abandoned. There's a lot of them. Furnas County has, I think the number is something like 60 certificates, 60 county tax certificates that have been abandoned. Nobody will buy them because they're not worth anything. Our county attorney doesn't even file cases on any of them because he doesn't have time. All of these properties are sitting out there. If we put any more load on the county attorney in that county, it's just going to be more properties sitting there vacant. It's not the case with all of the residential properties. A lot of them are lower dollar. You don't find a lot of people with a hundred thousand dollar house and let their taxes go. Happens sometimes, but \$20,000, \$30,000 house, it's right in that danger zone and \$600 taxes. That's kind of been my rule of thumb. With the \$10 certificate fee, \$600 taxes used to pay off in about a month and that was a fair bet for me. But with a \$20 fee and part of a registration fee now on top of that, I've got to be 65, 64 days out before I start making money. It almost makes me think maybe this year I need to be bidding only properties that are tax certificate of \$1,000 or \$1,200 or more. It's going to take me out of the market on the lower end stuff. [LB162]

SENATOR DAVIS: Thank you. [LB162]

SENATOR GLOOR: Senator Sullivan. [LB162]

SENATOR SULLIVAN: Thank you, Senator Gloor. If you don't mind my asking, how did you get in it? And why did you get into this business? [LB162]

RYAN HANZLICK: Well, it...first, I noticed sheriff sale notices in the newspaper. And I started doing my research in seeing how this...how it worked and that was how I came across my first rentals, buy them at sheriff sales. And I would buy county sales, county tax sales certificates, and I actually end up buying some that US Assets had that they went through foreclosure on. From

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there I studied it a little more and I just...I don't know, I like to dabble in everything that looks interesting. [LB162]

SENATOR SULLIVAN: Are there...is there a network of...you're a standalone business?
[LB162]

RYAN HANZLICK: Yes. [LB162]

SENATOR SULLIVAN: Are there others like you across the state? [LB162]

RYAN HANZLICK: There are, there are. There's a handful. It's not a big thing. If...this is something I wanted to mention also. If it was...if it was something where it was really, really lucrative, wouldn't it be swamped with people? It's not really. The 14 percent makes it sound like it is and it sounds good to people that watch it at late-night TV. That's what happens. They think it sounds good and so they find out how they can get into it anyway they can. But it's really...it's not 14 percent. If you're borrowing...if you're borrowing on a credit line of 7 percent, you know, you better be picking the right property and you better not have one burn down. You'll lose money. [LB162]

SENATOR SULLIVAN: Thank you. [LB162]

SENATOR GLOOR: Seeing no more, thank you. [LB162]

RYAN HANZLICK: Thank you. [LB162]

SENATOR GLOOR: And I'm glad it worked out for you to attend. Other opponents. [LB162]

JARED HOLLINGER: Thank you, Senator Gloor, members of the committee. My name is Jared Hollinger, J-a-r-e-d, last name, H-o-l-l-i-n-g-e-r. I am president of a company in Omaha called Guardian Tax Partners. I have been engaged in the tax lien industry for approximately ten years in the state. Our sister company is heavily engaged in REO. That's short for Real Estate Owned, so foreclosed property and the like. And we have experience in other states and their methodologies as well. I'd first like to start, before I review my prepared testimony, with some counter to just some of the testimony that has been provided. The comment that 14 percent is high, as the others have said, to the outsider may seem that way. But I will tell you that in the analysis process, in other words when we prepare for the tax lien sale coming up the first Monday of this March, we do our best to ensure that we're not investing in properties that may already be dilapidated, may have already burned down, may have already been demolished, may

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be subject to city code violations, and we go and we buy. But three years is a long time and in that three-year time period any number of things can happen to affect that investment. And, in fact, over that three-year period, we are allowed the right to purchase subsequent taxes and further assist the county, pay the taxes off, and we are the beneficiary of that interest. I'll share with you a real life scenario in which a property that we purchased the taxes on, paid subsequent taxes for three years getting ready to file foreclosure, and it burned down. And so that entire investment, unfortunately, the property is in an area of town in Omaha that the lot value is nil and so that investment is lost. And so when we're factoring in the potential loss involved in the unknown along with the costs involved in research and collection, 14 percent, in our estimation, is a fair rate. As far as the tax industry goes, in my view there are three types of buyers. There's a mom and pop, there's an individual who can show up at a tax sale, as Mr. Hanzlick pointed out, and purchase a certificate. Still today in this state that can happen. There are equity investors. I would consider myself to be that, local or regional investors that use their own money and use bank money to purchase tax certificates. Okay? And then there is the institutional investors which are primarily funded through Wall Street, hedge funds, the like. I don't say Wall Street for any other effect than that it is, in fact, investment banks, hedge funds, that fund these tax certificate purchases around the country. And so there's...I view there's were those three groups. Primarily in Nebraska the two groups that take part in the tax sales now are the individual and the equity investor, the folks, just like myself, just like US Assets. Although, in credit, they're tremendously...they're quite a bit larger than I am, so. So my question then is what type of investor best fits Nebraska? In my opinion, the local investor that has...that can take the local approach and treat the taxpayer and the county officials in the way that they deserve is the best approach. Companies like ours that has a local representative or employee that can inspect the property and determine what it's condition is, that upon the expiration of the certificates can work with the homeowner in the form of a payment plan through judicial process or a payment plan even thereafter the judicial process or the tax deed process has happened that can work with local municipalities to rehabilitate properties. What I mean by that is that in many cases the properties need tremendous amounts of work. In our example, we actually administer financing for investors to fix up properties in many cases that we get back. And then also those that can form relationships with local nonprofits, just like the one with Habitat for Humanity that was mentioned. The issues that I see with the bid down of the interest rate process, is that it would promote the large institutional investors. And with that, these organizations do not have a borrowing cost or in most instances, it's very low or none at all. And the interest bid-down environment would then become the race for the cheapest money and ultimately promote these investors' engagement in Nebraska. That would result in no local presence or a very small local presence to deal with the issues that can arise and offer payment plans to taxpayers if needed. It also can result in a bogged down system in which many cases these large institutional investors will begin foreclosures only to find out they have a worthless asset and then abandon the claim, which then leaves this property in limbo for years and years and years. It can also have an effect on local banking. As a local business owner, the bank that finances my tax lien purchases also

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has their name on a big shiny building a few blocks from here. With this legislation my ability to purchase, and others like mine, would be impacted, therefore, affecting the banking industry in the state. So, in summary, as a Nebraska business owner, I feel the best method is the method we have. It promotes local businesses. It enables a local tax lien investor to be engaged in the process. And rather than looking at the singular standpoint of benefiting the county from the financial standpoint, we should be looking at the holistic effect that the legislation could have. Any questions? [LB162]

SENATOR GLOOR: Thank you, Mr. Hollinger. Questions? Seeing none, thank you. [LB162]

JARED HOLLINGER: Thank you. [LB162]

SENATOR GLOOR: Anyone else in opposition? Is there anyone who would like to speak in a neutral capacity? Good afternoon. [LB162]

ROBERT GIESE: Senator Gloor, members of the committee, my name is Robert Giese, G-i-e-s-e. I am the treasurer in Dakota County and I am just here representing myself. And I want to just comment on the...a few of the issues that were brought up. I am all for the pre-market, the investors, to make whatever the market bears that they can. But I think, ultimately, what we have to realize is who we're trying to, in my mind, help. Senator Scheer, you mentioned before, that, you know, what type of individual may get behind in taxes. And I have seen all sorts of individuals and a lot of times they aren't in good financial straits, and they are in a spiral to try to get these taxes paid off. They, ultimately, do in most cases in my four years that I have been the treasurer, I have seen...we have about two...we list about 400 parcels each year. We are a small to medium-sized county, I would say, in Dakota. We sell anywhere from 100 to 200 certificates per year and sometimes it's somebody that forgot to make their payment. And then they're right, they come in the next day or they come in next week, and the investors do not make money on that. They lose money, as a matter of fact, on that. But in the four years that I've been there in the treasurer's office, I have seen, I think I can count on one hand how many properties have gone to foreclosure. So there is a lot of cost for investors to get into that, but, you know, the county, we just want to see the taxes paid, is the ultimate goal. And how we get there and what percentage that is that these investors make, I mean, that's what we're really talking about here is the amount that the investors make. And you or I or Joe Smith, taxpayer, has to pay for a penalty for interest, so. And there has been a lot of valid points on costs and what it would cost you to get in that market and they know that up-front. With this year's, the new legislation that takes effect in March, the...there are increased fees. But what I see that will happen, and I am not an expert on this, is that if there...if this bill would pass and there would be a bid-down process, it would be bid down kind of like the...in the past, we had the percent ownership of interest in a property. So I have heard...we have never had a bid down in Dakota County, but I've heard in other counties

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where investors come in and they say--in the past--that I'll take all of the properties at zero percent or 1 percent or whatever that case may be. And I don't know if that's happened or not, but a lot of times what I've heard is that the small investor...and a lot of these people that get in this are, you know, your neighbors or somebody that like, 14 percent, that sounds pretty good. I think I'll get in it. And it sounds good, but you really need to know what you're doing when you get into buying these certificates because although the up-front money, you know, you may have \$10,000 invested, but in the end if you have to foreclose...and you'll get all that \$10,000 back, most of the time, plus your interest. But if you have to foreclose, then that's when the bigger costs come into play. So I think the number, the 14 percent is what we're talking about. If that can be adjusted for the investor and then in the end it's the taxpayer that is paying that penalty, so. And I'd be happy to answer any questions that you may have. I don't know if I've shed any light on this, but if not. [LB162]

SENATOR GLOOR: Senator Giese, it's good to see you again. You're dressed a little more casually than the last time, I think, we saw you in the building, so. [LB162]

ROBERT GIESE: Day off today. [LB162]

SENATOR GLOOR: Well, I guess my question would be, have you been in the building to provide testimony on other bills since you left us four years ago? [LB162]

ROBERT GIESE: One time. [LB162]

SENATOR GLOOR: So is this important enough for you to have your day off come down to visit with us about this bill? [LB162]

ROBERT GIESE: I actually had a couple of other things to do, but I knew this was part of the...and I wanted to hear the discussion on this and see which...because it is a...the bill has been changed and it's new this year and there are more costs for investors, but...so I did a couple of things today. [LB162]

SENATOR GLOOR: Well, we appreciate your making time. Other questions? Senator Sullivan. [LB162]

SENATOR SULLIVAN: Thank you, Senator Gloor and nice to see you again as well, Mr. Giese. Can you...this isn't directly relating to this legislation but it was brought up a couple of different times about the fees attached, the fee that the investor pays for the certificate, and then there's another one that is paid. They seem to think that maybe that was double-dipping, or... [LB162]

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ROBERT GIESE: There's a...there was a...we never had and I think Nebraska, nobody...I don't know, I could be wrong, but I don't think we've ever had a...I call it an entry fee to go to the sale. I've heard different states, Iowa, or Woodbury County for instance, I think they have a \$100 fee. So there is that new fee of \$25 per investor this year and the certificates went from \$10 to \$20. So that's there. The \$10 we always had, but the \$25 is new this year for investors, so. [LB162]

SENATOR SULLIVAN: Okay. Thank you. [LB162]

ROBERT GIESE: And that's large or small, it's all the same. [LB162]

SENATOR SULLIVAN: Okay. [LB162]

SENATOR GLOOR: Any other questions? Seeing none, it's good to see you again. Thank you. [LB162]

ROBERT GIESE: Thank you. [LB162]

SENATOR GLOOR: Others who would like to testify in a neutral capacity? Apparently not. Senator Schumacher, you're recognized to close. [LB162]

SENATOR SCHUMACHER: Thank you, Chairman Gloor, members of the committee. A few points of clarification. We heard about interest, bid-down interest provision that was enabled in the past. That is not the kind of interest we're talking about here. When the bid-down interest provision of the past was, how much interest, security interest you took in the property to secure a payment of a loan, you take half the property as security instead of 100 percent or 1 percent instead of 100 percent. That's different entirely. That's talking about the nature of the security that you were willing to take. That led to some problems because how do you foreclosure on a 10 percent interest of a piece of property. It was a mess. That's not the interest we're talking about here. Here we're talking about plain old-fashioned interest, rate of interest. Fourteen percent times the principal equals what you're supposed to get paid back, so to eliminate some confusion on that. Next thing is the nature of the notice and foreclosure process. And you've heard some very accurate testimony. A treasurer who goes out and hustles before the tax sale and let's the constituents in the county know that, hey, this is getting a little bit serious, we're going to sell your taxes, shakes out a lot of people. They realize that particularly when interest rates are really low like now, they realize they'd better pay their taxes. And so a lot of the property that actually goes to the tax sale is eliminated from the tax sale. Then when they publish a list of ones that they're serious about selling in the paper, there is some research that is done for the people to make sure their odds are better. They wash out the property they want the county to get stuck

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with and take the choice pieces of property. Now that used to be a whole lot more work than it is now because a lot of the information about property now is available through such things like GIS Workshop on the Internet and you can sit for no cost at home and get a pretty good notion of what you're bidding on. And so that cost has gone down substantially because the sources of information available publicly and on the Internet are much lower. But once the sale takes place and you've done whatever research expense you have in order to make sure that you're sticking the county with the low end stuff and you're getting the stuff that's probably going to pay off, then there is probably a 65 day period in which if you figure the interest rate times the principal and the \$20 fee or \$25 fee, that you might be behind if they pay off. You really don't want them to pay off in that first 65 days because you're behind the power curve. But at 65 days of a three-year period, so the profit is there and it's there substantially. Then you get down to the end of that period, you have a choice to make between the tax deed and the foreclosure mechanism. Almost everybody goes the foreclosure route. Why? Two reasons. The tax deed mechanism does not guarantee a good title. If you go into the treasurer's office and you say, here's my certificate, the law says if I send out notice you're supposed to give me a deed to the property. Well, that deed is not good against people in mental institutions, various different people are protected. It's not good against them because they didn't get sufficient notice and a lot of other reasons. So a tax deed might be good title, might not be good title. Almost everyone goes the foreclosure route. The foreclosure route, yes, you do get...have to do a title search to find out what bankers might be involved, what titleholders might be involved, if there's any other liens that might be involved. Not a big deal, \$75 to \$150 that you're entitled to be reimbursed for and do get reimbursed for. And so, once you get that, then you rum-dum through a computer process, you print out lawsuits or one lawsuit that names many, many different defendants in one piece of paper. And you file it and lo and behold you send out certified mail or you can have the sheriff deliver it, if you want really good spoof value. And lots of people shell out at that particular point. It starts getting serious because their bank just got a notice that things are really serious and bankers have ways of making sure their borrowers pay attention to life. And so at that point, you're in court, it's not cost you much money yet. It's been a process, basically a word processing process, probably conducted by some young attorney that you've hired just out of law school or just got out of a county attorneys office. But you can at that point, if the person comes forward and says, hey, man, I don't have the money. You can enter into a stipulation with them that says, if I pay this much according to this schedule, we'll not ask the judge to push it through to a final judgment. And almost all of them in this process some way wash out. Very, very, very few go through the final process which is the judge saying, sell it, and the sheriff selling it. Tiny, tiny percentage. Now, and I say, okay, gee, there's all these costs. I can only net out, I think, the figure was 10 percent or 2.5 percent in the first year, but a lot more in the second and third years. And you wonder, how did this ever work? When interest rates weren't that...5 percent to get a loan to borrow for this or if you had your own cash, trade this 14 percent for 2 percent at the bank, how did it ever work? It worked because their expenses aren't that much. This is a high-profit business. And to the extent the interest rates drop by whatever mechanism and the county gets a

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spread, the taxpayers come out ahead. What we have going now is not right and we need to address it. The deal of the mechanism of how we do this that was negotiated and talked about wasn't talking about the underlying economics. It was talking about the mechanics of buying these things. But we're either charging those people who are behind on their taxes too much...we have an inefficient mechanisms for collecting taxes. Maybe the county should be allowed to form an interlocal pool and buy the certificates themselves. Or we can try this mechanism, which is fairly efficient, and let the market determine what is a fair interest rate to pay for these things. Let the bid down occur. And that's the mechanism that's proposed in this particular bill. But whichever way, this thing calls out to be addressed. What we have going now is not right. It might have been right in the 1985 era, even into the '90s when there were...you could get...there was not such pressure on interest rates, but today, it's a windfall. And it's a windfall at the expense of either the taxpayer who is paying the interest or a windfall at the expense of a county who is giving up the spread. I'll take any questions. [LB162]

SENATOR GLOOR: Any final questions? Seeing none, thank you, Senator Schumacher. [LB162]

SENATOR SCHUMACHER: Thank you. [LB162]

SENATOR GLOOR: And that will end the hearing on LB162. We'll now move to our next bill, LB168...LB186. A little dyslexia there. Senator Bolz. Good afternoon. [LB162]

SENATOR BOLZ: (Exhibits 1-4) Good afternoon, Revenue Committee. In my campaign, I heard comments that maybe some of you heard as well, and those comments were related to property taxation for homeowners. One of the things that I heard frequently was the idea that homeowners can manage their property taxes year to year and are fairly conscientious about budgeting for them. But if a property tax rate increased significantly, that placed a pinch or a burden on those homeowners. And so this bill addresses the tension between rising property taxes and stable family incomes. Essentially if property taxes are too high in proportion to income, the circuit breaks and results in an income tax credit for that household. By providing an income tax credit for individuals whose property taxes rise at a rate higher than their incomes, we can provide relief that is both targeted and meaningful and contributes to stability for homeowners all across the state in all types of communities. I think there are some significant benefits of this type of approach. First, the relief is targeted and we know that there are challenges in targeting property tax relief due to our uniformity clause. Because this is structured as a relief program, we can target it to the population that we are seeking to target it to, and that's to modest- and middle-income families, folks earning \$58,000 or less for individuals and \$116,000 or less for couples. The question that may be already rolling through your minds is, Kate, is this in line with our uniformity clause? I would argue that it is and I would offer that

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there is a precedent in Wisconsin for this very same concept. The second benefit of an approach using a circuit breaker is that the credit is meaningful. And there is a cap based on your income for the credit, but the credit ranges from \$200 to \$300, which I think has meaning and value for a modest income family. The third piece is that this provides some stability for taxpayers. They will receive this credit if their tax bill changes significantly. Of course, this doesn't mean that property owners should be in a situation that they simply can't afford over time or that we let local entities off the hook for keeping taxes down, but it does help the individual taxpayer manage a year-to-year change. I do have two just very technical amendments that I'll pass out. They both address just some tweaks that should have been put into the original version of the bill. The idea is that the credit will be implemented in a way that's "graduated." In other words, we don't want to create cliffs at those income changes. And so that's what the first amendment does. And the second amendment just clarifies that you can't qualify for a credit that is worth more than your property tax bill. Those things should have been in the original version and my drafting error. So I'll pass those out for your consideration. But in conclusion, I think the fundamental idea here is that Nebraskans...a significant portion of Nebraskans put their assets, put their equity into home ownership. Home ownership is literally, you know, part of the American dream. And I think that trying to address the property tax burdens year to year for families is a meaningful type of relief. So I'm happy to answer your questions. [LB186]

SENATOR GLOOR: Questions? Senator Scheer. [LB186]

SENATOR SCHEER: Your last statement sort of caught me off because you talked about the individual having invested in the home and so this is helping. But yet of your three examples, the second largest return is that of someone that has no investment in a home. And I will give you that an individual's rent is inclusive of the property taxes but they're truly, from a technical standpoint, not a property owner. [LB186]

SENATOR BOLZ: Sure. So you're pointing out the factor of the bill that includes renters as someone who would qualify for property tax relief. You have a fair point, Senator Scheer. That type of family isn't necessarily building equity. I would say, you know, we're protecting the equity of those who are homeowners and are building that asset. You know, I wanted to make sure that the committee had an opportunity to see how this bill could be structured to impact both renters and homeowners. Certainly those things can be adjusted and adapted. But I think there's an important recognition that renters do pay a portion of property taxes and are a part of this property tax relief conversation. [LB186]

SENATOR SCHEER: Fair enough. And in your...I don't know if it's your comments or your sheet in here, it talked about that valuations in Lancaster County for residential went up 3 percent. And I guess that's the justification for the property tax relief. Do you really think those

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people that's valuations only went up 3 percent were those that had the big concern that I guess in relationship to looking at the fiscal note, it's...I got to tell you, I felt bad yesterday, withdrew an amendment that was going to cost a million bucks trying to free sanitary improvement districts from taxation, and I'm looking at \$225 million or thereabouts, \$220 and change. You know, to an isolated portion of property owners that truly from my vantage point haven't been affected as much as other segments in society. [LB186]

SENATOR BOLZ: Thank you for the opportunity to talk about the fiscal note a little bit. I think part of the argument here is that property taxes wax and wane over time and for those cases where we see significant changes, that impacts some more than others. Your other point is that, yes, there's a significant...more than significant fiscal note on this bill. As we have a discussion about property tax relief in this state, I want to make sure that the average homeowner in Nebraska is a part of that discussion. Forty-seven percent of property taxes in the state are paid by homeowners, by the folks we are targeting with this bill. And so this is a part of the dialogue that's important to me that as we talk about property tax relief this is a part of the conversation. Do I think that \$200 million is tenable? No. Do I want it to be a part of the conversation? Yes. [LB186]

SENATOR SCHEER: Okay. Fair enough. Thank you. [LB186]

SENATOR GLOOR: Senator Bolz, when you headed down the path of researching and pulling together the information for this bill, had you anticipated that the fiscal note would be anything like that number? [LB186]

SENATOR BOLZ: Our original estimates were actually a little bit closer to \$140 million, and some of that may have to do with the "gradation" drafting piece or different interpretations about how the fiscal analysis is done. You know, I think in the broader context of having the Governor talk about a goal of \$400 million of tax relief, I want to make sure that the folks I represent are a part of that conversation. All of that said, I do think there needs to be balance and stability in our choices together. Certainly as a member of the Appropriations Committee I want to make sure that we have a budget that makes sense. But as we are making more room for property tax relief, I think this is a strategy that's worth considering. [LB186]

SENATOR GLOOR: Okay. Thank you. Other questions? Senator Davis. [LB186]

SENATOR DAVIS: Question, Senator Bolz. The fiscal note is very daunting. Do you have any suggestions for ways to rather move that down significantly? [LB186]

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SENATOR BOLZ: Sure. I do think that we can sit down and compare the way we analyze the fiscal note to the way the Fiscal Office analyzed it and see what those differences are. We expect...you know, we thought that there would be a \$60 million difference there. We could certainly pull some levies...buttons and levers. One might be requiring individuals to choose between the homestead exemption and this credit. That would probably address the fiscal note. Another strategy might be to Senator Scheer's point to discuss whether this should be only targeted at homeowners. That's appropriate. We could certainly adjust the percentage at which the credit kicks in, the way in which you trigger the circuit breaker. And of course we could change the income qualifications to make it more affordable. I don't envy your role as Revenue Committee members. I think you have one of the most intellectually challenging jobs in the body. But there are certainly ways to take the basic concept and keep the principles of targeted relief while adjusting for a smarter fiscal note. [LB186]

SENATOR DAVIS: You know, I think as I recall Senator Dubas had a circuit breaker last year which was I believe trying to deal with some of the agricultural problems. Of course, that was \$400-million fiscal note. I guess my observation as a rural senator is that we've seen our property taxes skyrocket on agricultural land since 2008, and residential has been relatively flat. So the perception to me is we have more of an agricultural problem than we do a residential. Would you like to comment on that? [LB186]

SENATOR BOLZ: I don't know that I would disagree with you that the strain has been more acute in agricultural land. But I don't think that that means that we shouldn't have a conversation about residential property. [LB186]

SENATOR DAVIS: Thank you. [LB186]

SENATOR GLOOR: Senator Schumacher. [LB186]

SENATOR SCHUMACHER: Thank you, Senator Gloor. Senator Bolz, I've got to congratulate you. Up to this point I had the record for the biggest fiscal note. (Laughter) [LB186]

SENATOR GLOOR: No prize, by the way. [LB186]

SENATOR SCHUMACHER: Unfortunately. Thank you for putting another tool, maybe a jackhammer, into our tool chest that we maybe can fashion some type of tax program out of. One of the concerns over time, and you mentioned it briefly, was our uniformity clause requires everything to be equitably and uniformly taxed. And this with a refundable credit almost looks like a backhanded way to get around that. You cited a Wisconsin case. Is that...and I don't think

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Wisconsin's language is identical to ours if I remember right, was there any more research done as to how thin the ice would even be if we pass this? [LB186]

SENATOR BOLZ: Sure. You know, I would certainly be willing to pursue an Attorney General's Opinion. If that was of interest to the committee, I would be happy to do that. The Wisconsin case was decided on a couple of factors. One was that they argued that the classification of people who were getting relief was clear enough under the purpose of the law much like our homestead exemption. And the other piece was they articulated it as a relief law. And so they said it wasn't subject to the uniformity clause. Now would Nebraska courts interpret it in the same way as the Wisconsin courts? I just can't answer that question. I can certainly try to get a solid Attorney General's Opinion for the committee. I think it's a fair question to ask. But I think that it's definitely in the realm of possibility to craft a circuit breaker that still keeps the integrity of our uniformity clause. [LB186]

SENATOR SCHUMACHER: Now does this foresee then basically Appropriations Committee appropriating whatever the number of money is and then that being doled out or is this off on the credit side where you wouldn't have to pay it to begin with? [LB186]

SENATOR BOLZ: That's a good question. The mechanics I think would have to be worked out a little bit. You're basically asking would this go...would it sort of go in the revenue side of the ledger or would you structure it like the property tax relief program. And I think it could probably go either way. And maybe one of the folks from OpenSky or the Platte Institute, who I think are both coming today, I think would be able to answer that in a little bit more depth. [LB186]

SENATOR SCHUMACHER: Thank you, Senator Bolz. [LB186]

SENATOR GLOOR: Senator Scheer. [LB186]

SENATOR SCHEER: Just to follow up, Senator Bolz. You made the comment that you wanted to make sure that homeowners were part of the equation and so forth. Explain to me your philosophy on the difference between a property tax credit which is uniformly equalized proportionally to a property owner, including residential property or agricultural property or any, and what they would consider a fair basis. How, in your opinion, is that not equally addressing the plight of the homeowner? [LB186]

SENATOR BOLZ: Right. My opinion is that this is a more targeted strategy. One of the things that I think is a challenge as I sit in the Appropriations Committee and every year vote for

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property tax relief through the property tax credit program is that I know that the impact of that relief isn't as meaningful as some other strategies might be. You know, it's...I think the average is, what, \$80 or something for the average homeowner. So does it make more sense to use the resources we have for property tax relief to add more meaningful value to modest and middle income owners versus spreading that more thinly across the income spectrum? I would argue that it is. Others might argue that that's not fair and that's their prerogative. I think the fundamental concept of this idea in comparison to the property tax credit program is to try to make the property tax relief more meaningful. [LB186]

SENATOR SCHEER: Would your thought be that this replace...that the \$220 million or thereabouts be part of the \$400 million in property tax or the part that new dollars wouldn't cover it? So if we were at \$400 million, are you suggesting then that your bill be \$221 million of it that is more targeted, the rest would be more proportionate, or is this new and in addition to? [LB186]

SENATOR BOLZ: It's a good question. I guess the way that I approach it is to put this bill and this concept out for consideration and to work with this committee in terms of whatever package of property tax relief we end up putting together. Could we direct some of the resources that some of us are thinking about putting towards the property tax credit towards this approach? Certainly. If Congress ever passes the Marketplace Fairness Act, could some of those resources be put towards this idea? Certainly. Could we go back to some of the ideas of the Tax Modernization Committee, revisit the sales tax base, for example, and try to put it into a targeted program like this? Certainly. And I'm not intending, Senator Scheer, to put it back on you as committee members. It's my bill and I own it, but I also recognize that this idea is a part of a much bigger property tax conversation that isn't just a property tax conversation, it's an education conversation, a revenue conversation, and appropriations conversation. So, you know, I don't think that this is a bill that I would walk in and say, pass it yesterday. I would say that this is a bill that has great opportunity for homeowners in Nebraska. [LB186]

SENATOR SCHEER: Thank you, Senator Bolz. Thank you, Senator Gloor. [LB186]

SENATOR GLOOR: Seeing no further questions, thank you, Senator Bolz. [LB186]

SENATOR BOLZ: Forgive me. I've got a bill in Government, so I'm going to "scooch" over there. I may or may not be back to close. [LB186]

SENATOR GLOOR: Okay. We will keep that in mind. Hope you make it back for closing. Thank you. We'll now move to proponents for LB186. Good afternoon. [LB186]

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JON BAILEY: (Exhibit 5) Good afternoon, senators. My name is Jon Bailey, J-o-n B-a-i-l-e-y, and I'm the director or the rural public policy program at the Center for Rural Affairs in Lyons, Nebraska. We're proud residents of Senator Brasch's district. Good to see you, Senator. And today I come before you to support LB186. As Nebraskans have heard for decades, the real tax debate in this state should be how we provide meaningful and sustainable property tax reform in the state where local government entities are too reliant upon property taxes. There now seems to be a consensus among the citizens of the state, the Legislature, and the new administration that the time has come to actually provide meaningful and sustainable property tax reform. We believe a circuit breaker policy like that outlined in LB186 could be an effective method to provide that meaningful property tax relief. At our count, 18 other states have used some form of circuit breakers to offset high property taxes. The benefit of LB186, as Senator Bolz said, is that it provides tax credits related to property tax expenses to those in most need of property tax relief, residential property owners and renters whose rent directly helps landlords meet their property tax responsibilities. It's well-targeted to lower- and middle-income Nebraskans, likely more targeted to those most in need of property tax relief than any other property tax relief measure proposed this session. Obviously, as Senator Bolz talked about, the lost revenue from LB186 in the fiscal note is a concern and an issue for this committee to deal with. But I think Senator Bolz gave you some initial opportunity, some initial ideas of how that could be done. Honestly, property tax and tax relief is going to be a big ticket item. It's going to be expensive no matter how it's done. And you will be facing...as you all well know, you're facing a multitude of bills this session, all which will have very high fiscal notes. So the fiscal note in this bill is a concern, but I think every tax bill that you're going to look at this session, it's going to be a concern. And so I think the ideas that Senator Bolz offered are well worth considering on how to reduce that fiscal note, how to make it more responsible. I think there are a lot of methods to address the fiscal note in LB186. It provides graduated tax credits based on income and property taxes imposed. These could be phased in or the adjusted gross income amounts could be modified. All of the ideas that were offered by Senator Bolz and which will be offered in the future I think could help make that fiscal note more reasonable to all of our tastes. But I think ultimately we believe that the fiscal note concerns should not triumph over the innovative and beneficial public policy offered in the bill. We believe that a property tax circuit breaker policy has the potential to be a reasonable, measured reaction to property tax trends. Those trends, especially in agriculture, Senator Davis mentioned, those trends may be temporary but they always seem to come back. We saw similar trends in the eighties as we're seeing now. The trends that we're seeing in agriculture seemed to be modifying a little bit now, but they'll be back. They always are. And they're likely to return at some point in the future. The effect of property taxes on low- and moderate-income Nebraskans will seem to be remaining and seem to be long term and they'll remain until some reform is accomplished. I think the state is in great need. And Governor Ricketts said this, I think you all have said this. Every senator has heard this on the campaign trail. We hear it from our constituents. All taxpayers are in need of some property tax policy that addresses the real and increasingly permanent issues for both rural and urban

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Nebraska. A property tax circuit breaker could be designed to respond to the natural fluctuations in agricultural incomes, land and housing prices, and property values, and help smooth out the economic fluctuations that affect all of our property taxes. Eventually, and I think sooner rather than later, we would urge this committee to follow the recommendations of your own Tax Modernization Committee of a couple of years ago and consider and develop effective and affordable circuit breaker programs to, quote, the report of the Tax Modernization Committee to offset the regressivity of the property tax by providing relief to households having a higher burden of property tax on their household income. Thank you. [LB186]

SENATOR GLOOR: Thank you, Mr. Bailey. Are there questions? Senator Brasch. And by the way, Senator Brasch has joined the committee quite some time ago, as a matter of fact. So my apologies for not recognizing her when she was able to get here. [LB186]

SENATOR BRASCH: Thank you, Chairman Gloor. And it was very pleasurable to leave the Judiciary Committee (laughter) and come here today. So if you take a look, Revenue and Judiciary, this is a good place to be. All good. And it's good to see you, Mr. Bailey. [LB186]

JON BAILEY: Good to see you, Senator. [LB186]

SENATOR BRASCH: And thank you for your ongoing work for the Center for Rural Affairs. [LB186]

JON BAILEY: Thank you. [LB186]

SENATOR BRASCH: I do have a question. In our district specifically I have had, and because this as I read it, we're directing this for primarily residential homeowners. [LB186]

JON BAILEY: And renters, correct. [LB186]

SENATOR BRASCH: And renters. They're coming to me saying our residential taxes have dropped. They're going down and not up. That's...and I actually have...because I am introducing a agricultural land, a tax receipt, same school district. And since 2005, their taxes have dropped \$200, \$300. Same school district, agricultural, what was \$1,500 is now \$5,600, you know, a significant shift here in taxation. [LB186]

JON BAILEY: Right. [LB186]

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SENATOR BRASCH: And are you hearing otherwise that I'm not hearing that...on residential? [LB186]

JON BAILEY: Well, I can tell you as a constituent my property taxes on my house have gone up a little bit, not nearly as much as a farmer in our community. But as you know there are so many variables of property taxes. I mean, it's dependent upon the taxing rates of all of the governmental entities. [LB186]

SENATOR BRASCH: Correct. [LB186]

JON BAILEY: And in a town like--Senator and I live in the same town--in the town that we live in there are so many valuation questions. I mean... [LB186]

SENATOR BRASCH: Correct. [LB186]

JON BAILEY: ...it's hard to compare our community with, say, Omaha or Lincoln. The housing markets, of course, are much different. The houses are much different. The types of houses. So I... [LB186]

SENATOR BRASCH: Do you think it's much of a rural concern perhaps? That's what I'm wondering, if this is... [LB186]

JON BAILEY: It's a different concern. [LB186]

SENATOR BRASCH: Okay. [LB186]

JON BAILEY: You know, obviously, as Senator Davis asked Senator Bolz, the agricultural property taxes in rural areas are the prime concern just because of the amount of land and the value of the land attributable to agricultural property compared to residential or commercial. But I think in some rural areas it's obviously going to be an issue and certainly residential taxpayers still pay the tax and it's still an expense, it's still an expense to their family income. And it may not be going up and up and up every year like, say, agricultural property is, but it's still an expense and it's still a burden on their family and on their family budget. So I wouldn't characterize it as not as big an issue in rural areas, but it's a different issue and it's still an issue. [LB186]

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SENATOR BRASCH: Okay. I think the Revenue Department released some figures saying that since year 2004, residential has gone up 40 percent across the state where ag land has gone up 167 percent. So there is a significant... [LB186]

JON BAILEY: Right, right, right. Yeah, and there's no denying that. I think if you ask your colleagues in Omaha, Lincoln, they may have a different take on the residential issue. [LB186]

SENATOR BRASCH: And I am curious on that if it is very geographical. The residence I have here in the last four years I've seen those taxes go down a little, too,... [LB186]

JON BAILEY: Sure. [LB186]

SENATOR BRASCH: ...so, in Lancaster County. But perhaps...I've heard opposite of Omaha, maybe the metropolitan class city has a... [LB186]

JON BAILEY: And I think even in rural areas it may differ from rural community to rural community because of how their schools levy taxes, how their counties, how all the other property tax supported into this... [LB186]

SENATOR BRASCH: You're believing this is a good way to bring tax dollars back in the means of... [LB186]

JON BAILEY: I think it is. And it certainly, as Senator Bolz talked about it, it certainly targets those families, individuals and families that are most in need of tax relief, lowering middle income property taxpayers who are having to pay a property tax that is...it is regressive. It hits them harder than other taxes. So it provides them some form of relief that other things you may consider this session don't. [LB186]

SENATOR BRASCH: It's great to see you here and thank you for your testimony. [LB186]

JON BAILEY: Thank you. [LB186]

SENATOR BRASCH: I don't have any other questions. Chairman, thank you. [LB186]

JON BAILEY: Thank you. [LB186]

SENATOR GLOOR: Thank you. Senator Scheer. [LB186]

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SENATOR SCHEER: Thanks for coming down. [LB186]

JON BAILEY: Thank you. [LB186]

SENATOR SCHEER: Center for Rural Affairs realize also it's rural communities not just agricultural ground, as well. [LB186]

JON BAILEY: Right, correct. [LB186]

SENATOR SCHEER: So I understand your comments may be more specific to the areas in the communities of rural Nebraska, but it deals exclusively with residential property. [LB186]

JON BAILEY: This bill. [LB186]

SENATOR SCHEER: This bill. [LB186]

JON BAILEY: Yes. [LB186]

SENATOR SCHEER: And the dollars are somewhat large. [LB186]

JON BAILEY: Granted, yes. [LB186]

SENATOR SCHEER: So my question to you then is where is the...for your organization or if you can't speak for them, for you personally, what's the priority? Is the priority to fund residential property tax relief or is it a priority...is it a higher priority to fund agricultural property? Because based on this bill, and I only have what I have in front of me and it shows a \$221 million deal, so I mean if there's some available this bill has probably used it and some. So how would you respond as far as a priority for your organization or yourself where this bill falls into your preference of property tax relief over the state? [LB186]

JON BAILEY: Senator, I think that might be a little bit of a false choice because I think you can do both, as Senator Bolz... [LB186]

SENATOR SCHEER: No, I'm going basically with what's in front of me. I can't have what-ifs. And if this relief is \$221 million, I think we can both agree that's probably going to max out whatever might be available for property tax relief. So is it...and I guess I won't ask you to speak for your...because you have not, I'm sure, talked with your board of directors, maybe you have, if

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you can. But from a vantage point, is this more important than ag value relief? Or it may be real simple. I mean, is...personally, is it more important...which is more important to you personally, because, yes, you can have both but which one is more important to you? [LB186]

JON BAILEY: Again, I would not say one is more important than the other. I think they're both important. I think all taxpayers in the state are important. I think providing some form of property tax relief to all taxpayers is important. And even though agricultural property in rural areas makes up the largest part of our property valuation and the biggest dollars, if you gauge it by people there are more homeowners in rural areas. So... [LB186]

SENATOR SCHEER: Well, but I guess to respond to that though if we are going to be talking on factual information, half of the school districts in the state of Nebraska are unequalized. [LB186]

JON BAILEY: Right. [LB186]

SENATOR SCHEER: And so, as Senator Brasch had implied, with those rising values of ag ground and a lot of communities, indeed those residential properties, have already...their tax base, their tax dollars, the check has gone down somewhat dramatically in some areas because of the additional rise of ag ground. [LB186]

JON BAILEY: Right. [LB186]

SENATOR SCHEER: So it's sort of the double whammy for those that are unequalized because they've lost the help or the assistance of the state based on the formula. So local taxpayers have to pick up that difference, and a large amount of those districts where your ag and rural values can equate 80 to 90 percent of the total evaluation, they, indeed, are picking up all that additional cost as well. [LB186]

JON BAILEY: Right. I agree with that, and we'll be back in a couple of weeks talking about that on some other bills. But as to your question, which is more important to us, I'm going to respectfully not give you an answer because I think both are equally important and both can be done. Both can be accomplished to provide tax relief to both groups. As far as the fiscal note, I agree with what you said about the fiscal note, and, obviously, Senator Bolz agrees with that too and there are ways to bring that down to a more manageable figure. [LB186]

SENATOR SCHEER: Okay. Appreciate it. Thank you. Thank you, Senator. [LB186]

SENATOR GLOOR: Senator Sullivan. [LB186]

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SENATOR SULLIVAN: Thank you, Senator Gloor. So then at the end of the day, Jon, to accomplish relief for both residential and the ag land owners, what gives? Are we going to have to find additional revenue or are we going to cut programs? [LB186]

JON BAILEY: Good question. Obviously, something has to give, either...there obviously will have to be some compromises between the bills and the ideas that everyone has presented in the long, long list of property tax bills that you're going to be dealing with over the next few months. Senator Bolz I think made a very good point about potential new revenue sources that could provide revenue for something like this circuit breaker idea. I think a part of your debate is going to have to be you have the potential now for three programs, the property tax credit program, the homestead exemption, and this possible circuit breaker idea, that essentially have very common desires, what they want to accomplish. And I'm going to guess that you don't want to fund all three of those. And so how those three fit together, whether one is the better way to accomplish what you want to accomplish for property tax relief, whether a combination of those three is something to look at. I think that's a very big part of what your discussion is going to have to be, assuming that you don't want to have multiple programs doing very similar things at very high dollar values. [LB186]

SENATOR SULLIVAN: Thank you. [LB186]

SENATOR GLOOR: Senator Schumacher. [LB186]

SENATOR SCHUMACHER: Thank you, Senator Gloor. A couple of questions. A lot of the people that I would think would be targeted by this, maybe retirees, maybe people who make less than the filing requirement on a tax return, this would appear to require them to produce a federal tax return in order to claim. Is that a disincentive? [LB186]

JON BAILEY: A disincentive to? [LB186]

SENATOR SCHUMACHER: To applying for this credit, for this refundable credit. [LB186]

JON BAILEY: It may be. That's a good question. That's something I haven't considered. But that's a good question. [LB186]

SENATOR SCHUMACHER: Particularly in the case of renters. I could see a great many people in this category wouldn't be filing a tax return if they had very many kids or just anything that had a higher filing level. The other thing is this takes the amount of property taxes paid minus 1 percent of, in the first category, the federally adjusted gross income. What if someone had a

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\$500,000 loss on the federal AGI? One percent of that would be \$5,000 I guess. So would they get their property taxes back plus \$5,000, because a minus of a minus is a plus. [LB186]

JON BAILEY: Yes, it is. I know...good procedural questions. I think there are some procedural questions that need to be thought about. [LB186]

SENATOR SCHUMACHER: Thank you. [LB186]

SENATOR GLOOR: Senator Davis. [LB186]

SENATOR DAVIS: You never knew you were going to get grilled so much when you came to this hearing. [LB186]

JON BAILEY: It's not even my bill. (Laughter) [LB186]

SENATOR BRASCH: This is my constituent. [LB186]

SENATOR DAVIS: I've got a couple of questions and then I'm going to make a comment. But because of the Center for Rural Affairs and the work you do, you may be able to answer this question. If you can't, I understand. Isn't it true that when a residential property is built for low-income people, there are some tax incentives for that construction to take place? [LB186]

JON BAILEY: There can be, I mean, it depends on how it's done and... [LB186]

SENATOR DAVIS: Can you kind of give a framework for how that might work? [LB186]

JON BAILEY: We don't do much work in housing. Actually, I'm going to put on another hat. Actually, I'm on our county economic development board and we're doing more housing, so. If it's done through...there are housing districts, housing authorities throughout the state who are nonprofit entities, and there are various programs both at the state and federal level they can access to get resources to build housing. So as a nonprofit organization, yeah, they get tax breaks to build. [LB186]

SENATOR DAVIS: And so isn't part of the idea behind that that you will be able to hold the cost of housing at a low level so it will be affordable for renters? [LB186]

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JON BAILEY: Right. The problem is that those resources both at the state and federal level are pretty slim and not available and the demand for affordable housing in rural communities, as we're finding in our county economic development board, is very high and the supply is very low. And there just isn't enough resources from either the state or the federal government to do what's necessary. [LB186]

SENATOR DAVIS: So do you know if there are incentives? I mean, does the county offer or the city offer an incentive already? Is there a property tax valuation that's not based on the assessed value but on the income, I guess, generated? [LB186]

JON BAILEY: Some do. I mean, some cities in Nebraska and elsewhere throughout the country do that, some rural communities do that, mostly as an incentive to bring people into the community to address the depopulation trends. How effective those are, I don't know. They're not that common. Not every town in rural Nebraska has such a policy. There are a few. [LB186]

SENATOR DAVIS: You know, but those things even take place in large metropolitan areas. [LB186]

JON BAILEY: Sure. [LB186]

SENATOR DAVIS: And I guess where I'm going with that is perhaps that break is already built in for renters in those situations. I'm just throwing that out kind of for the record, no other reason. [LB186]

JON BAILEY: Yeah, I...again, there's way more demand than there is supply in rural communities for affordable housing. So if you do have rental property, which is another problem in most rural communities... [LB186]

SENATOR DAVIS: Right. [LB186]

JON BAILEY: ...there just isn't much rental property, if you do have rental property, it's usually older, not in very good shape, very inexpensive. So the breaks that are there for rental property in urban areas just generally don't exist. [LB186]

SENATOR DAVIS: And then the final question I have: Senator Brasch asked you a question and you said...about valuation issues. Would you like to elaborate on what you meant by that? [LB186]

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JON BAILEY: Well, I'm trying to remember what I...I mean, in...I'll just...the small town I live in and that Senator Brasch lives in, you know, obviously you're going to have different types of housing valued at different levels. And depending on the wherewithal of the owner of the property, additions, upkeep of the house, it's going to determine the valuation. It seems that different counties have different abilities to assess property. And so somebody can construct or rehab a house that makes it...from the street level makes it look much more valuable than it was before. But the county doesn't have the ability to assess it at its current value, though the law says they probably have to. So, you know, you have different valuation issues even in small towns that play into how property taxes are assessed and what's owed. [LB186]

SENATOR DAVIS: And, of course, my point is ag land has to be assessed every year. [LB186]

JON BAILEY: Exactly, exactly. [LB186]

SENATOR DAVIS: Residential is every five years. [LB186]

JON BAILEY: Right. [LB186]

SENATOR DAVIS: Thank you very much. [LB186]

SENATOR GLOOR: Senator Brasch. [LB186]

SENATOR BRASCH: Thank you, Chairman. And I do want to thank you again for being here and this is a great committee. [LB186]

JON BAILEY: It's always a pleasure. [LB186]

SENATOR BRASCH: But I did want to add just for the record that housing is...residential is 100 percent, the house in town is 100 percent... [LB186]

JON BAILEY: Right. [LB186]

SENATOR BRASCH: ...and the house on the farm is also 100 percent. [LB186]

JON BAILEY: Right. [LB186]

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SENATOR BRASCH: You know, we're talking about the land and my...the issue and the concern is that in the same school district, the residential taxes went down, however, the ag land value went up several thousand dollars. So that's what we're trying to make a priority to address, if possible. [LB186]

JON BAILEY: Well, and one of the issues you face in rural communities, as you know, because of other issues is there's just not much housing construction going on which doesn't increase the residential pot, valuation pot in smaller towns. You know, there's just not enough people that need to build new houses and there's not enough population there to require the building of new houses, you know that. So that pot doesn't grow and there's no need for it to grow in a lot of rural communities. [LB186]

SENATOR BRASCH: Following the tornadoes in Wisner and Pilger, and actually I went to the USDA housing meeting that was held in Lyons at your center... [LB186]

JON BAILEY: Right. [LB186]

SENATOR BRASCH: ...that there are dollars, low interest, or waived interest in our rural areas. So, hopefully, that will be self-correcting and moving forward, so. Thank you. [LB186]

SENATOR GLOOR: Seeing no further questions, thank you, Mr. Bailey. [LB186]

JON BAILEY: Thank you. [LB186]

SENATOR GLOOR: Other proponents. [LB186]

GWENDOLEN HINES: Hi. My name is Gwendolen Hines, first name is G-w-e-n-d-o-l-e-n, last name is Hines, H-i-n-e-s. I'm both a proponent and opponent to this bill. I think that ag relief is more important than residential property relief. Nebraska property taxes I read are the fourth highest in the nation. But if you look at the total tax burden of the state of Nebraska on its taxpayers, we come in at 25th right in the middle. And I think that property taxes are a good way to make money by taxing the people who can afford to pay it. So if you are going to tax...if you are going to decrease residential property taxes, which I don't think should be done actually, then I think this bill is the right way to do it because it affects those who are most in need of a decrease. And I won't be here to testify for the ag bill, so. [LB186]

SENATOR GLOOR: Okay. Thank you, Ms. Hines. Are there any other questions for her? Thank you for taking the time. [LB186]

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GWENDOLEN HINES: Thank you. [LB186]

SENATOR GLOOR: Other proponents. [LB186]

RENEE FRY: (Exhibits 6-8) Good afternoon, Chairman Gloor 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 the OpenSky Policy Institute. I'm here today to testify in support of LB186. We are all aware of the difficulty of providing property tax relief while protecting critical services, such as education and public safety. We agree that there is no silver bullet. We do think a circuit breaker is a great way to provide targeted tax reductions to those whose property taxes are high in relation to their incomes without cutting funding for those services that make Nebraska such a great place to live. The Institute on Taxation and Economic Policy estimated that LB186 in its intended form would return \$149 million to taxpayers in the form of income tax credits. This is approximately the same amount of tax assistance disbursed through the property tax credit program. So our recommendation would be to make some adjustments to the bill, as Senator Bolz suggested, so that the property tax credit program could be turned into a circuit breaker without needing additional revenue. The majority of the tax reduction through the LB186 would go to low- and middle-income Nebraskans and would directly benefit renters as well. This is in contrast to the property tax credit program, which benefits out-of-state residents and doesn't help Nebraska renters. You can see in the handouts that the circuit breaker would make the tax code less regressive, reducing effective tax rates for low- and middle-income families. In particular, under this proposal, our lowest income Nebraskans would have an effective tax rate more comparable to our highest income earners. However, you might consider adjusting the caps to bring the effective tax rates down for the middle class. On the second page, you can see that the vast majority of credits--91 percent--go to low- and middle-income families. And on the third and fourth pages, you can see the impact of the circuit breaker at the taxpayer level. Looking at our real Nebraska taxpayers, Steve and Andrea who own a home, have three children, earn \$66,000 annually and pay \$2,678 in property taxes would receive a \$300 property tax reduction. The same family would receive a \$96 tax credit under the existing property tax credit program. Our renter, Dan, who earns \$19,000 annually, would get a \$485 property tax reduction under LB186, but receives no direct property tax reduction under the existing property tax credit program. In contrast, Chris and Jill, a home-owning couple with three children and an income of \$359,000 annually, would not receive a property tax reduction under the circuit breaker, but they currently receive \$121 under the existing property tax credit program. I've also provided a description of how the circuit breaker credit is calculated, and I'd be happy to walk you through it if there are further questions. As was mentioned earlier, 18 states and the District of Columbia offer circuit breaker programs similar to that proposed in LB186. Twelve other states provide property tax credits for low-income families based on income only without consideration of the property tax-to-income relationship. Circuit breakers, as a means to provide property tax reductions, have garnered support across the country and in Nebraska. They were mentioned as a possible

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solution to Nebraska's property tax challenges in the Tax Modernization Committee final recommendations in 2013, as well as in the Revenue Committee report on agricultural property taxes in December of 2014. As the state looks at ways to address its property tax challenges, LB186 presents one way to provide targeted property tax reductions to those who need it most. And to some of the comments that have been made earlier, ideally this would be part of a larger package that addresses ag land values, such as Senator Davis' bill LB280 which will be heard in a few weeks. Thank you for your time. And I would like to make two quick comments. Senator Schumacher, I will tell you that there is a renter's credit in Wisconsin and when I attended school and worked my way through college, I filled out my tax form so that I could get a couple of hundred dollars in that renter's credit because it made a huge difference to me and my standard of living. So I do think that there would be enough of an incentive to file that tax return, at least on a personal level there was. And I think you asked a question about...you were asking a question about the property tax rebate. So part of the...and how it works versus the property tax credit program, and if you issue it...so the way that the circuit breaker would work is that the property taxes are fully paid and that way you avoid the uniformity clause issue. So that's the difference between the property tax credit and the circuit breaker. And I'd be happy to talk more about that. So thank you for your time and I'd be happy to answer questions. [LB186]

SENATOR GLOOR: Thank you, Ms. Fry. Questions? Senator Scheer. [LB186]

SENATOR SCHEER: First, thanks for getting that information in your statement. Appreciate it. Thank you. [LB186]

RENEE FRY: Yeah, absolutely. [LB186]

SENATOR SCHEER: On LB186--and you may not be the correct person and I see Senator did just come back in, so if you're not then I can ask her at closing--this all has to do with income, reportable income. But what about those that may have substantial savings that choose to live in a more moderate home and we'll say are very, very frugal and are saving a larger portion of their income. So we're going to be providing them a fairly significant amount of money back because they're saving rather than spending, and their income stays lower so they've developed wealth beyond the house. But that's not taken into consideration. Or someone, for example, in their later years at retirement sells the big house, has a substantial amount of assets, either rents or buys a more moderate home, condominium, whatever the case may be, still would probably qualify. But they have a huge asset base. So we're targeted but not very pinpointed. [LB186]

RENEE FRY: Yeah, I guess I don't know how to specifically address that issue. I guess I would say when we've, you know, looked at this on a macro level and a micro level and we do find that it's pretty targeted. It's definitely targeted than our current property tax program is. [LB186]

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SENATOR SCHEER: Well, I'm not saying it's not more targeted, but obviously there's always those exceptions. [LB186]

RENEE FRY: Yeah. [LB186]

SENATOR SCHEER: And I see...and the only reason I was just thinking of it because I've noticed closer to my age than I probably like to acknowledge, but those that are my age or older as they're starting to reverse the size of their home and other things and are banking more of those assets and are more cautious in their investments, so, therefore, they are making less money, quite probably could fall into this very easily. And I think that's happening more than less now from previous times. So just curious what you thought. [LB186]

RENEE FRY: Yeah. So, you know, what we could do is we could look and see if other circuit breaker programs in other states have asset limits and that would be a way to address the issue I think. [LB186]

SENATOR SCHEER: And just...you're going to know more than I on circuit breakers, but there's a vast array of ways to use circuit breakers. [LB186]

RENEE FRY: Yes. [LB186]

SENATOR SCHEER: This is fairly specific in its approach. I mean, circuit breakers is a broader term, so this is very, very exclusive use of a broader general utilization tool. Would that be... [LB186]

RENEE FRY: Right. Yeah. So if the 19, you know, 18 states and D.C., you have.... [LB186]

SENATOR SCHEER: All different ones. [LB186]

RENEE FRY: None of them are the same. [LB186]

SENATOR SCHEER: Yeah, it's not...this program is not in place anywhere. [LB186]

RENEE FRY: No, they're all different. [LB186]

SENATOR SCHEER: It's a circuit breaker of some type is being utilized. [LB186]

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RENEE FRY: Right. Yep. Some have renters credit, some don't, some have different thresholds, they all look different. [LB186]

SENATOR SCHEER: And in your testimony, again, reading it, you talk about utilizing the tax credit system, turning this into that. And maybe it's not \$221 (million) so you get it down to the \$175 (million) or whatever it is. So at the expense of all the rest of society in the state of Nebraska, we're going to put all our bananas in this one spot. Am I understanding that correctly? [LB186]

RENEE FRY: Yeah. I mean, it's a policy choice. You know, there's a lot of criticism about the current property tax credit program with the amount of dollars that go to Ted Turner and other folks that live out of state. This would address that. But, yeah, there are a number of different ways that it could be approached. That's just...we would recommend using those dollars in a more targeted fashion where they can be a little bit more meaningful for the people who need it. [LB186]

SENATOR SCHEER: Well, and I guess I would...sometimes meaningful is the eye of the beholder. You know, for me looking at it, you know, again as I've stated earlier and I know you were here earlier, we're talking exclusively residential property and maybe five years is not a good span to look at as longer. But I think you could even go back 10 to 15 years. But in the last five years, looked at the average increase of ag value versus residential. And literally every year in the last five years, without exception, ag ground has gone up ten times, not double, ten times, a thousand percent more than residential property. And for us not to address that or to change and put all of the bananas in this boat versus some type of a more dispersed one seems to be going against the grain of what I think most Nebraskans would consider property tax relief. [LB186]

RENEE FRY: So we've done a lot of work looking at agricultural land valuations and what's happening with property taxes, and we completely agree that they have been growing at a much faster rate than residential and we agree that it's a big concern, which is in large part the reason that we started working with Senator Davis on LB280 to really try to address ag land property taxes in a meaningful way. Senator Dubas, as was mentioned earlier, introduced an agricultural circuit breaker last year, and my recollection is that the fiscal note was about half a billion dollars. And so again I completely agree. You know, to the point that Senator Brasch made earlier--and I'd be happy to get you the charts--residential has gone up as well but ag has gone up much faster, I completely agree with that. [LB186]

SENATOR SCHEER: Well, I mean, I have the numbers right in front of me, so I mean I'm not making these up. [LB186]

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RENEE FRY: No, I agree. [LB186]

SENATOR SCHEER: And when we talk about, you know, double the value or 300 percent, I mean, I'm talking a thousand percent. In 2010, ag values went up 11.75 (percent), residential 1.18 (percent). In 2011, 11.69 (percent), 1.22 (percent). In 2012, 12.82 (percent), 1.59 (percent). Two thousand thirteen, 22.93 (percent) and 1.51 (percent). And last year, 2014, 29.43 percent, and residential 2.99 (percent). I mean, those are astounding differences and I guess for us to exclude some meaningful relief for them and put everything into this basket I would be hard-pressed to feel it is a good compromise or a good policy on a state basis. [LB186]

RENEE FRY: We're very familiar with those numbers and completely agree. As I said, this is an issue we've been working on and are well aware of. And we don't see this an either/or though. We don't see this as being the only solution. And there are lots of other bills that have been introduced that do address that issue. And so we just see this as one piece of the larger package. But I completely agree that ag land property taxes are a real significant issue. [LB186]

SENATOR SCHEER: Okay. Thank you very much. Thank you, Senator. [LB186]

SENATOR GLOOR: Are there any other questions? Senator Schumacher. [LB186]

SENATOR SCHUMACHER: Thank you, Senator Gloor. A couple of questions. First, would the credit when they receive that, would that be taxable income as far as federal income taxes are concerned? [LB186]

RENEE FRY: I don't know the answer. I'll have to get back to you on that. [LB186]

SENATOR SCHUMACHER: Okay. The second thing, thinking through the practical application of this, the property taxpayer, say he doesn't have a whole lot for income and owes about \$1,200 a year property taxes. And they get their sticker shock when they see their valuation and when they see their property tax bill and they get their \$600, take it down to the Treasurer and pay it. And then a couple of months later take another \$600 down and pay it to the Treasurer, complaining all the way. And mad at property taxes because they had to pay \$600 two times and it was higher this year than last. And then around Christmastime comes the check signed by Don Stenberg, state of Nebraska, for \$1,200 just in time for Christmas. Psychologically and as a practical matter, does that solve the property tax thing? We...is that connection there? Should that check go to the county instead of to the taxpayer because that money isn't going to be saved at Christmastime to think, oh, next May and next September I'm going to have to have this in the piggy bank for my property taxes. It's going to go for something else. [LB186]

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RENEE FRY: Yeah. I completely agree. I think part of it's just the way that it's...you know, again when I lived in Wisconsin I knew it was a renter's credit because that's what it said on the tax form. It was very clear that it was that piece. I agree that there may be a disconnect there. So I think, you know, in terms of how we talk about it and how we market it, and the piece though is that I'm not sure how you do it otherwise and avoid that uniformity clause. And so that's the downside. But, yeah, I understand the psychological disconnect. [LB186]

SENATOR SCHUMACHER: The bottom line on this approach is take income and sales tax and money and write checks to property taxpayers who are basically below \$100,000 in income and mostly below \$50,000 income. And so the rub is where do we get the sales and income taxes from? That's the rabbit we got to pull out of a hat. [LB186]

RENEE FRY: Yeah. So as I said earlier, I mean, our recommendation would be that we use the appropriation that's going to the property tax credit program, and that's the source of revenue. [LB186]

SENATOR SCHUMACHER: But some of that goes to the ag sector right now, right? [LB186]

RENEE FRY: Yes, and some would still go to the ag sector in terms of residential. But as I said, there are other bills that were brought this session that I think address the ag land piece. So I just see this as part of the bigger package, one of the tools, as you said. [LB186]

SENATOR SCHUMACHER: We're still looking for the rabbits and the mice, right? [LB186]

RENEE FRY: Right. [LB186]

SENATOR SCHUMACHER: Thank you. [LB186]

SENATOR GLOOR: Other questions? Seeing none, thank you, Ms. Fry. [LB186]

RENEE FRY: Thank you. [LB186]

SENATOR GLOOR: Other proponents. [LB186]

MARK INTERMILL: (Exhibit 9) Good afternoon, Senator Gloor, members of the committee. My name is Mark Intermill, spelled M-a-r-k I-n-t-e-r-m-i-l-l, here today on behalf of AARP. We do support LB186. I think, like all of the proponents, we were a bit surprised by the fiscal note.

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But basically I wanted to give you a little background of why we believe this is a good tax policy. One of our key organizational principles at AARP related to taxation is that it should be progressive and that it should raise enough revenue to adequately meet the needs of the state. We believe that circuit breaker does provide an opportunity to provide relief for those who are at the lowest income levels. And in a survey of AARP members that we did in 2013, we found that there is support for a progressive or a relatively equal balance of taxation across income levels. We asked people if they thought that we should...that the taxation system should rely more heavily on higher income people as opposed to lower income, lower income as opposed to higher, or that it should be relatively balanced across the income scale. Three percent thought that we should provide more of the burden to the lower income levels and it was relatively split between the other two options. We also asked people what was the degree of difficulty they had with different levels of tax, different types of taxes. And the one that came out the most common or had the highest percentage of people indicating that it was burdensome was the property tax. And when we looked at the cross tabs, what we saw was that those with the lower income levels had a higher degree of difficulty with property taxes than those at higher incomes. And I think the percentages was 21 percent at the lowest income group found it extremely difficult or very difficult, 18 percent in the middle, and 3 percent at the higher income group. We do have a homestead exemption in Nebraska and we have followed that program very closely. We're very fond of the homestead exemption program. And in reference to the balance between agriculture and residential and other forms of taxation, it is very true that agriculture has grown at an alarming rate in the state. But I have been in this position long enough to know that that's not always been the case. In the early part of this century, we saw an alarming increase in the cost of the homestead exemption program. And the reason for that increase was because residential property was growing at a much faster rate than any other form. So these things are cyclical. Right now, we are in a point at which we have a problem with the growth in agriculture and the agricultural section. So one of the things that we did...would recommend is take a look at how the interaction occurs between homestead exemption and this program to make sure that it's not...we don't double pay. We've included some examples attached to the testimony. We just ran some hypotheticals of different income groups to see how the homestead exemption and this particular program would address their property tax burdens. We did find a couple of examples where a person would qualify for both and we think we need to make sure that we do one or the other. There are some other things I think that we could do to reduce the projected cost of the program. As others have said, I think this is a tool. We need to adapt it, make sure it fits within what sort of...the resources that we have and just make sure that...I guess our bottom line is that we would like to see this on the table, left on the table. I think it can be adapted to fit within the resources available. So we would just ask you to keep it under consideration and as other proposals come up to add this to the mix. [LB186]

SENATOR GLOOR: Are there questions? Senator Scheer. [LB186]

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SENATOR SCHEER: Thank you, Senator Gloor. Just real quickly, are these...for my own information, your examples, are these real people or are they ones that you just made up? [LB186]

MARK INTERMILL: No. Hypothetical, yeah. No. We did try to do a...for example, you'll see different tax rates because we have different tax rates around the state, so... [LB186]

SENATOR SCHEER: Well, I guess what I was looking at is you've got people of the same age but you've got vastly different medical deductions and so forth. And I can ask you some other time. I don't want to... [LB186]

MARK INTERMILL: Okay. Yeah. [LB186]

SENATOR SCHEER: ...burn any more time up. But I was curious if they were actual real examples or if they were something you just made up, so. Thank you, Senator Gloor. [LB186]

SENATOR GLOOR: Senator Davis. [LB186]

SENATOR DAVIS: And just one question. Thank you for coming, Mark. But can you tell me how the homestead exemption thing works? [LB186]

MARK INTERMILL: Yes. It is a program that...it's based on what's called household income and household income is your total income, including anything that's deductible from adjustable gross income. And then there's a medical deduction which is, if I'm remembering correctly, any amount of income greater...any amount of medical expense greater than 4 percent of your total income. So that...in the examples you'll see a deduction. That's what that would be. That gives you the household income. The household income is applied to a sliding scale to determine what percentage of property tax relief you would receive, I think in 10 percent increments. Most of the people in the state have 100 percent. People with partial increments don't seem to apply, which goes back to the question of will people apply for this? But basically it's...the funds are then sent to the state...to the county, so it doesn't go to the individual taxpayer but it goes to the county to relieve that portion of the tax that's owed. [LB186]

SENATOR DAVIS: And that's for people over 65 or 55 or? [LB186]

MARK INTERMILL: It's 65 plus some disabled individuals. The disability requirements are pretty stringent though. [LB186]

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SENATOR DAVIS: Thank you. [LB186]

SENATOR GLOOR: Seeing no other questions, thank you, Mark. [LB186]

MARK INTERMILL: Thank you. [LB186]

SENATOR GLOOR: (Exhibit 10) Other proponents. We had a letter of support from Al Mum (sic - Guenther) who sent it on behalf of himself. We'll now move to opponents. Seeing none, we'll now move to those in a neutral capacity. [LB186]

LAVON HEIDEMANN: Senator Gloor and members of the Revenue Committee, for the record, my name is Lavon Heidemann, L-a-v-o-n, Heidemann, H-e-i-d-e-m-a-n-n, and I'm a advocate for the Nebraska Farm Bureau and I come before you today on their behalf. We just wanted to take a few minutes to weigh in on Senator Bolz's bill, LB186, and we wanted to offer some testimony in the neutral capacity because while we would never want to be on record in opposition to tax relief, we also wanted to respectfully point out that we are going to look at...we need to also look at tax relief, we need to consider property tax relief for agriculture land. Our research indicates that while property taxes on residential property has increased 40 percent in the past ten years, property taxes on ag land has increased 162 percent during that same period. And we had heard that previous times here today. We understand that residential and commercial want to be part of the discussion. But when you talk about the Governor's proposal already, there's proposals in the Legislature also on the property tax credit relief program, \$60 million from the Governor's side. There's bills that would do that and some had a lower amount. But that \$60 million, the ag portion of that at approximately 30 percent would be \$18 million. Residential and commercial is \$42 million of that part. So I really do believe that the commercial and residential side are not only part of the discussion but they are definitely a big part of that discussion. I had the opportunity this summer to travel across Nebraska. And it was across the state from Springfield to Plattsmouth to Omaha to Oakland to South Sioux City to West Point to Norfolk to Albion to Burwell to Grand Island and Kearney to Broken Bow, Scottsbluff, Sidney, Holdrege, Hastings, McCook, Wilber, and even Elk Creek, Nebraska. And I will tell you that... [LB186]

SENATOR GLOOR: Not a complete list I'm sure. [LB186]

LAVON HEIDEMANN: That is not the complete list. A lot of little towns in between. And I will tell you there was...there were events where people could come up to us and share their concerns. And as I sat back there and listened to this testimony, I thought about that. And I will tell you not one time in all of those events that I can recall did somebody talk to me about residential property tax. And it would take everybody's fingers and toes in this room for how many times people come up to me and talk to me about the burden on a property tax on ag land. And I put

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that out to this committee today because I know your task is big. But I put that thought out to this committee today so when you make your decisions and you look for priorities, I hope you remember what Lavon Heidemann heard across this state this year. And I will say that we are in a neutral position on this bill. There has been talk about taking money from the property tax credit relief program to help fund this bill. I have not exactly asked Farm Bureau this, but I'm pretty positive if that talk is there we would probably come in in opposition on this bill. We as an organization are more than willing to work with this committee to try to find property tax relief across this state. If there are any questions, I would be happy to try to answer them. [LB186]

SENATOR GLOOR: Thank you. Are there any questions for Senator Heidemann? Senator Davis. [LB186]

SENATOR DAVIS: I just want to know if you went to Reno, Chicago, Fargo, and Minnesota? (Laughter) [LB186]

LAVON HEIDEMANN: There was a little bit of outstate but we didn't hit those. [LB186]

SENATOR DAVIS: Thank you. [LB186]

SENATOR GLOOR: Senator Schumacher. [LB186]

SENATOR SCHUMACHER: Thank you, Senator Gloor. I think I estimated right there, there are 760 fingers and toes in this room. (Laughter) [LB186]

LAVON HEIDEMANN: That's pretty quick, and I should expect that from you. I will say though that time and time again and it's a little bit of the people that I hang out with, that is their concern. And I will still stick with my number. It was the topic of the year, for me anyway. [LB186]

SENATOR SCHUMACHER: Thank you, Senator. [LB186]

SENATOR GLOOR: Any other questions? Seeing none, thank you. [LB186]

LAVON HEIDEMANN: Thank you. [LB186]

SENATOR GLOOR: (Exhibits 11-13) I should have, when we were talking about opponents since no one stepped forward, a Mr. Matt Litt with Americans for Prosperity Nebraska did, in

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fact, send a letter; and in neutral capacity we have Len Sloup from the Nebraska Department of Revenue; and the Corn Growers, both in a neutral capacity. Anyone else in a neutral capacity? Seeing none, Senator Bolz, you're recognized to close. [LB186]

SENATOR BOLZ: Well, first, I want to say thank you. Thank you for two reasons. The first is that I didn't expect I'd laugh in the Revenue Committee. I appreciate the levity. (Laughter) [LB186]

SENATOR GLOOR: Yeah, it's a riot here. (Laughter) You should be here every day. [LB186]

SENATOR SCHUMACHER: Gallows humor. [LB186]

SENATOR DAVIS: We have much more fun than Appropriations here. [LB186]

SENATOR BOLZ: That might be true today. The second thing I thank you for is your thoughtful dialogue and discussion. That was part of the purpose of bringing this bill for your consideration and we all know that this dialogue is what gets us to our end goal of serving our constituents. And that's what brings me to something else I'd like to say in closing, which is even though I take my position as state senator very seriously and am responsible for some ag land of my own, I also believe in representative democracy. And so this bill is a part of representing my constituency which is significantly made up of residential areas and homeowners. That said, that tension I think is clear but it is not an either/or conversation and I hope the committee doesn't think of it as such. I understand the pressure that we're all hearing about ag land values. I want this discussion to be a part of the conversation and a piece of the puzzle. That doesn't mean that I don't hear the hue and cry that all of you hear and that Senator Heidemann certainly heard about ag land values. I would, just in the context of thinking through these differing ideas, point out that it is not apples and oranges. Your home is your home. It's a necessity. It's a basic necessity of life versus ag land which is an income-producing piece of property. And so I do think there is some different treatment and some different conceptualization of how we pull together ideas about those different types of property. I did want to very briefly touch on your question, Senator Scheer, which I think was a good one. I am not opposed to the idea of putting in an asset limit. I think that's good research for us to do. But I would also add that I think particularly for the scenario that you laid out of someone who has saved a significant amount of money, downsized, and is a retiree, that person is also likely to have a fixed income and has done the right thing in terms of trying to save for their long-term needs. And so they might actually be someone who's particularly impacted by a significant property tax increase if they have budgeted and are on a fixed income now. So certainly, you know, some factors to think about. And appreciate the thoughtful dialogue this afternoon. [LB186]

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SENATOR GLOOR: Are there any final questions for Senator Bolz? Seeing none, thank you very much. [LB186]

SENATOR BOLZ: Thank you. [LB186]

SENATOR GLOOR: And that ends the hearing on LB186. We will take...and my apologies to Senator Watermeier, but we have been seated for quite a while, so we will take a recess until 4:30. And my health background has me wanting to tell people please get up and move around. It's important. [LB186]

BREAK

SENATOR GLOOR: And we are back, beginning with LB178. Senator Watermeier, welcome to the committee. [LB178]

SENATOR WATERMEIER: Thank you, Chairman Gloor, members of the Revenue Committee. I am Senator Dan Watermeier, spelled W-a-t-e-r-m-e-i-e-r. I represent District 1 covering the southeast corner of the state, and I'm here today to introduce LB178. And I just can't tell you how thrilled I am to be second on the list today behind Senator Bolz because her fiscal note was \$200 million and mine's going to be \$50 million. So I have given you an easy option here today, completely easy. LB178 would reduce the valuation of agricultural and horticultural land for school district taxation purposes by 5 percent per year for four years, reducing the valuation from the current 75 percent to 55 percent by tax year 2019 and thereafter. Likewise, the bill also phases in a change in the acceptable range of taxation of agricultural and horticultural land by school districts to be from 49 to 55 percent rather than 69 to 75 percent. Under LB178, agricultural and horticultural land would remain valued at 75 percent for other taxation purposes such as counties and NRDs. The bill was written this way so that other political subdivisions would not experience a decrease in funding with no alternative revenue source. Since LB178 decreases the valuation of agricultural land for school taxation purposes, it should in turn trigger an increase in equalization aid to school districts that contain agricultural land and receive equalization aid. The number of schools that receive no equalization aid is increasing and is an issue that we must address. In fiscal years '02 and '03, 32 of 263 school systems were nonequalized. But today, 159 of the 245 school systems are nonequalized. Although LB178 would not help reverse that trend, it does not resolve the problem. It has been estimated that under LB178, approximately 40 nonequalized school districts could become equalized. And I want to reiterate, it would reverse the trend but it won't...I'm going to admit that it won't help the problem in the long term...in the short term, excuse me. Nebraska farmers and ranchers today represent less than 3 percent of the state's population but pay more than 30 percent of the total property taxes collected statewide. In the majority of the state, agricultural land comprises more

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than 60 percent of a school district's total valuation base. Rural landowners are disproportionately funding our rural schools even though all residents of the school district benefit equally from having their children educated in public schools. Ag land values are increasing more rapidly than other types of property which enhances the problem and places an increasingly heavy burden on rural landowners to fund our K through 12 schools. In the last decade, property taxes on agricultural land have increased 162 percent compared with the 40 percent increase in residential property over the very same time period. When comparing property taxes, Nebraska is at a disadvantage with other states. In a recent report on methods used by other states to determine the taxable value of agriculture land, Bill Lock, the former research analyst to the Revenue Committee, estimated the effective tax rates on agricultural land in Nebraska and five other bordering states. He found the Nebraska agricultural landowners pay a higher effective tax rate on market value than found in other states in our region. Anywhere from 2 times higher than South Dakota to 11 times higher than in Missouri. Furthermore, Nebraska requires agricultural landowners to pay taxes on personal property values for items like farm machinery. Most states in our region do not tax agricultural machinery as well. The complaint I hear the most from my constituents is the high property taxes that landowners must pay. I realize that LB178 is not the total answer to high property taxes, but I think it is a step in the right direction. And, furthermore, LB178 would make Nebraska more in line with neighboring states for agricultural landowners. I urge the committee to look favorably on LB178. If you have questions, I'd be glad to answer them. But I think we have had this discussion and obviously through the tax modernization, you've heard it, I've heard it, and I just appreciate having the chance to bring it up again on the floor and we'll have a discussion about it hopefully in the committee. [LB178]

SENATOR GLOOR: Thank you, Senator Watermeier. Questions for Senator Watermeier?
Senator Sullivan. [LB178]

SENATOR SULLIVAN: Thank you, Senator Gloor. Thank you, Senator Watermeier. Did you indicate that there...you are estimating about 40 more school districts would become equalized or that some would remain...okay. Is that what you said? [LB178]

SENATOR WATERMEIER: Yeah. That's basically what I said. I think it would move around 38 or 40 is what I said, 32 in '02; 32 of the 263 were not; today, 159 are. By having the bill come in...where is that number at? [LB178]

SENATOR SULLIVAN: Well, and do you have any idea where those nonequalized school districts are or what they represent? [LB178]

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SENATOR WATERMEIER: I wouldn't...you know, I didn't geographically look at them to see where they are. [LB178]

SENATOR SULLIVAN: Okay. All right. [LB178]

SENATOR WATERMEIER: I mean, I realize the problem is out in western Nebraska if you've got a low...if it's all agricultural land in the district it's not going to really help their problem. [LB178]

SENATOR SULLIVAN: Do you have any idea, of the nonequalized school districts, how the range is in levy? [LB178]

SENATOR WATERMEIER: We've looked at that independently a couple of times, but I never really studied it and maybe I should. I would have that... [LB178]

SENATOR SULLIVAN: And so maybe the conclusion in those circumstances with very low levies and they lose that ag land value, they're probably just going to raise their levy. [LB178]

SENATOR WATERMEIER: Oh, certainly in those situations that probably would be the end result, yeah. [LB178]

SENATOR SULLIVAN: And then even those... [LB178]

SENATOR WATERMEIER: But even at that point, if I can interrupt, they still will show up with less resources from the state as far as the TEEOSA formula goes. You know that formula better than I. You can walk it around me and maybe say that's not true, but I think in the long...in the net result they would show less resources and more need even if they still are unequalized. [LB178]

SENATOR SULLIVAN: Yes, but with a low enough levies, I mean... [LB178]

SENATOR WATERMEIER: Right. [LB178]

SENATOR SULLIVAN: ...the lowest one probably is in maybe the 40's, so you can only imagine what they will have room to do which bottom line for the taxpayer, he might not...he or she might not see any reduction, if you will. And of those then that would move into equalization, is it fair to say that maybe they...there might not also be...they might not replace the equalization

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aid totally with the value lost, so that there could be some increase in levy there if there's room for them to do that. [LB178]

SENATOR WATERMEIER: I would say that assumption is probably accurate and the trend in that way, yeah. That's probably right. [LB178]

SENATOR SULLIVAN: Okay. Thank you. [LB178]

SENATOR GLOOR: Senator Scheer. [LB178]

SENATOR SCHEER: Thank you, Senator Gloor. Senator Watermeier, I understand where you're trying to get to. I'm just not thinking that this is going to be the road to this extent. Utilizing \$14 million as an average over the year, and even if you brought 40 more districts on, that's really only \$350,000 per district. Now having said that, that's not going to be divided among those 40 school districts. Now when I look, for example, in Madison County, if you reduce the ag value again on that, it's going to show more of a need. So Madison County, which is already equalized, is going to get some of that additional \$11 million. [LB178]

SENATOR WATERMEIER: Exactly. [LB178]

SENATOR SCHEER: And so the intent is well-focused, but I don't think you're going to end up getting very many dollars at all. If they're nonequalized, I'm afraid you're going to lose value, they're going to get about \$15,000 worth of aid in some cases and then their mill levy is going to have to go up. And, you know, the check they write is still going to be the same or more than it was the year before. And I think maybe if I might, I think a foundational aid of some type to the school districts, unequalized school districts, or however you would look to, you know, formulate that would be much more pinpointed to the districts that are really in need of the additional. And looking at those 159 or thereabouts, and there may be less depending upon what happens with the formula this year, but the money is not great enough to go through the school districts to really provide much relief in the basis of any of the districts and especially those that may come back into equalization. I'm afraid it's just going to be such a small amount that we've done a lot of work for relatively naught. [LB178]

SENATOR WATERMEIER: I can appreciate that point. And your point is, is that the money will be such a small amount that it could be spread out amongst 40 schools. If a school gets \$1, he all of a sudden becomes equalized. That's basically what you're saying, and I appreciate that. But I just think that this is a package, a part of a bigger package that will come up in the body, and I think it needs to be discussed in this committee, which I respect, we'll have a good discussion in

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here. And hopefully we can get it to the floor and see what the public says about it, see what the rest of the body says about it, and see where it fits. [LB178]

SENATOR SCHEER: Thank you, Senator. [LB178]

SENATOR GLOOR: Thank you. Senator Davis. [LB178]

SENATOR DAVIS: Thank you, Senator Gloor. Senator Watermeier, interesting idea, which if you've read my bill, I also incorporate a part of this in my bill. But I'm going to ask you about, you said 159 or 245 districts. Do you know how current that information is? [LB178]

SENATOR WATERMEIER: I thought I dated it. I say as of today, 159 of the 245 are nonequalized. But maybe that's not accurate. [LB178]

SENATOR DAVIS: Because I was thinking... [LB178]

SENATOR WATERMEIER: And if it's not, I'll get back to you and your data may be more accurate than mine. [LB178]

SENATOR DAVIS: Well, I was thinking...maybe Senator Sullivan knows the answer. I was thinking it was around 70 districts that were equalized now, 75. [LB178]

SENATOR SULLIVAN: I don't know for sure. [LB178]

SENATOR DAVIS: You don't know. Because I went through the list that came out the other day, the model did. [LB178]

SENATOR WATERMEIER: Well, 75 might...of equalized. [LB178]

SENATOR DAVIS: Yes. [LB178]

SENATOR WATERMEIER: And I'm saying 159 are not equalized. So there would be 40...85 that would be equalized. So we were probably only ten off. [LB178]

SENATOR DAVIS: We're close. [LB178]

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SENATOR WATERMEIER: Yeah. [LB178]

SENATOR DAVIS: So when we did the model for the 10 percent reduction, which is in my bill, I think it only brought 15 districts into the equalization. So the question that I have is you've got...you're thinking that's 40. Is that over the...is that when we get to 55 percent? [LB178]

SENATOR WATERMEIER: Probably would be, yes. That's why we'd include a higher...geometrically we'd go up quicker because it's a bigger number, yeah. [LB178]

SENATOR DAVIS: Did you do any sort of...or did your staff do any sort of assessment of valuation increases over the next two or three years as this is moving into law? [LB178]

SENATOR WATERMEIER: I can't answer that. You mean projected increases... [LB178]

SENATOR DAVIS: Right. [LB178]

SENATOR WATERMEIER: ...into the base valuation of the land? [LB178]

SENATOR DAVIS: Well, you know, we know how they've got...how ag land has gone up over the last three or four years and I think we could interpolate that it's probably still going to rise for another year or two because of the lagging values. I just didn't know if that was factored into this or not. [LB178]

SENATOR WATERMEIER: I can't answer that, but I could get back to you on that. And compared to your data that you've come up with the other plan as well if you want to talk about that. [LB178]

SENATOR DAVIS: Yeah. That would be interesting. [LB178]

SENATOR WATERMEIER: I think it would be good to do that, see if we're on the same page on those numbers. [LB178]

SENATOR DAVIS: You know, my big fear about doing something is we do something that looks good but doesn't really help anybody, and I think that was Senator Sullivan's concern and Senator Scheer, is that we could do this and we're going to bring a few districts into equalization. And then my concern is people will say, hey, we fixed that ag problem and we're not going to do anything else. We're just kind of putting a very teeny Band-Aid on it. [LB178]

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SENATOR WATERMEIER: Well, I'd hope to say it's not a teeny Band-Aid, but I would admit it's not the overall fix to this problem. But it's certainly got to be the first step that I think is the a foundational step, a safe step, before I would certainly want to replace aid on another side. I think this is the logical step to do first. I mean, ideologically that's the way I would approach any problem in business. [LB178]

SENATOR DAVIS: And then one other thing I will ask you. I asked the Attorney General for an Opinion on the constitutionality of doing this. I don't know if you've done that or not, but it might be helpful to me and to you if you submitted a letter also and asked for a decision. [LB178]

SENATOR WATERMEIER: Well, I will be glad to do that really, yes. Thank you, Senator Davis. I would do that. [LB178]

SENATOR DAVIS: All right. Thank you. [LB178]

SENATOR WATERMEIER: I think we had that discussion but I didn't follow up on it, so it's a good idea. [LB178]

SENATOR GLOOR: Yeah. That has been one of the issues that's been raised even before the hearing. [LB178]

SENATOR WATERMEIER: Okay. You bet. When did you make your request? Just now? [LB178]

SENATOR DAVIS: We made it before the first of the year. [LB178]

SENATOR WATERMEIER: Okay. [LB178]

SENATOR DAVIS: But another letter from someone else might bring it to the top of the kettle. [LB178]

SENATOR WATERMEIER: Sure. [LB178]

SENATOR GLOOR: Might move it up a year. (Laughter) [LB178]

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SENATOR WATERMEIER: Year? Might move it up to maybe May 1st let's hope, so. Good point. Thank you, Senator. [LB178]

SENATOR GLOOR: Other questions of Senator Watermeier? Are you going to stay to close? [LB178]

SENATOR WATERMEIER: Well, I think I need to so I can hear both sides of this. You bet. [LB178]

SENATOR GLOOR: Okay. [LB178]

SENATOR WATERMEIER: But I have it in Appropriations Committee that they're just dying to talk about TEEOSA. Should I go or should I stay here? [LB178]

SENATOR GLOOR: We'll leave it to you. [LB178]

SENATOR SULLIVAN: Only if you have the right answer. (Laughter) [LB178]

SENATOR WATERMEIER: That's what I was afraid you'd say. I'll stick around but I really don't have a closing prepared, so I just want to listen to the rest of the testimony. Thank you. [LB178]

SENATOR GLOOR: Okay. We'll move to proponents of the bill. Good afternoon. [LB178]

KENNETH BOSWELL: Good afternoon. [LB178]

SENATOR GLOOR: I think we've got them all. [LB178]

KENNETH BOSWELL: (Exhibit 1) I'm Kenneth Boswell, K-e-n-n-e-t-h B-o-s-w-e-l-l. My wife and I farm in Fillmore County and I am the president of the Nebraska Soybean Association, and I am here to support LB178 for the Nebraska Soybean Association. Assessed values of agricultural land have increased significantly over the past several years when compounded with the increases in assessed values of the past ten years. The Nebraska farmers and ranchers have seen significant increases in property taxes assessed on agricultural land. I am here today to offer support for LB178. We have seen many reports out there on the property tax structure showing farmers and ranchers are burdened with providing the bulk of the property tax funding for school districts. Farmers, and ranchers now paying more for schools while homeowners and others pay less. Here is an example from my own situation on paying property taxes. Change in my

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property taxes on my ag land from 2004 to 2014, seeing an increase of 87 percent with 20 percent of that occurring between 2012 and 2014. I also own a six-acre acreage in the same taxing district that has a home and a machine storage shed on that I rent out. That has increased 23 percent since...between 2004 and '14, but seeing a 10 percent decline since 2012. And my daughter or stepdaughter owns a home in Lincoln in conjunction with myself and I've just purchased that home. So I've only got the difference between the 2014 and what my taxes will be in 2015 on that home. But it's seen a \$12 decrease, so it's basically unchanged. So as owners of agricultural land I would appreciate your support of LB178 as looking at it as part of the solution to adjust for the large increase that agricultural land has seen over the last few years. If you have any questions... [LB178]

SENATOR GLOOR: Thank you. Your story is a familiar one I think to all of us here. But do you know in your instance with your county, are you in fact looking at real property tax relief or are you likely to see your levy go up? [LB178]

KENNETH BOSWELL: Probably the levy might go up some because my local school district has not received any equalization aid for I don't know how many years because we're a fairly...got a large land, irrigated land base with high values and a small student population, so. [LB178]

SENATOR GLOOR: Yeah. Other questions? Senator Sullivan. [LB178]

SENATOR SULLIVAN: Thank you, Senator Gloor. Thank you, Mr. Boswell, for your comments. Do you know what your school district's levy is? [LB178]

KENNETH BOSWELL: Not off the top of my head, I don't. [LB178]

SENATOR SULLIVAN: Okay. If it's been nonequalized for quite a number of years and if you have a very large ag land base, you probably have a fairly low levy. [LB178]

KENNETH BOSWELL: Yes, I'm sure it is. [LB178]

SENATOR SULLIVAN: Okay. All right. Thank you. [LB178]

SENATOR DAVIS: Mr. Boswell... [LB178]

KENNETH BOSWELL: Yes. [LB178]

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SENATOR GLOOR: Senator Davis. [LB178]

SENATOR DAVIS: ...just a clarification and more for the record than anything else, but you say in your note that your home increased 23 percent but declined 10 percent in 2012. So do you mean that it went up to 33 percent between... [LB178]

KENNETH BOSWELL: Between 2004 and 2014, it went up 23 percent, the change there. But between 2012 and 2014, the value declined. What I wrote the check for property taxes went down 10 percent. [LB178]

SENATOR DAVIS: So it actually went up. [LB178]

KENNETH BOSWELL: Twenty-three percent over the ten-year time period, but the last... [LB178]

SENATOR DAVIS: And then that 10 percent come off, so now it's 13 percent. Would that be right? [LB178]

KENNETH BOSWELL: No. The 10 percent decline between 2004 and 2012, it would have actually went up 33 percent. [LB178]

SENATOR DAVIS: Okay. That's what I was trying to get to. [LB178]

KENNETH BOSWELL: And then it declined back down the 23 for the full ten years in the last two years. [LB178]

SENATOR DAVIS: And so the reason for that 10 percent decline is obvious that...it's obvious that the ag valuation has gone up so much that its driven down value of...the need, I should say... [LB178]

KENNETH BOSWELL: It's driven down the levy that the local governments are levying. [LB178]

SENATOR DAVIS: Right, right. Thank you very much. [LB178]

SENATOR GLOOR: Thank you, Mr. Boswell. [LB178]

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KENNETH BOSWELL: Thank you. [LB178]

SENATOR GLOOR: Other proponents. [LB178]

LAVON HEIDEMANN: (Exhibit 2) Senator Gloor, members of the Revenue Committee, I am Lavon Heidemann, L-a-v-o-n, Heidemann, H-e-i-d-e-m-a-n-n. I'm here today in large part to drop a letter, there was a constituent of Farm Bureau that was going to testify today from Cherry County. She wasn't able to make the trip, so I am dropping the letter. But given the opportunity to talk about an issue that is very near and dear to me, I will say a little bit. There's been a lot of figures thrown around here and I'm going to throw...I don't know if I've heard this one here today in this committee that we now have 3 percent of the population of Nebraska--and that would be farmers from the ag sector--paying 30 percent of the property tax bill. There has been...you talk about tax shifts, there has been a natural shift on taxes on ag land. Since 2004, the property tax on ag land, we've heard this before, has increased 162 percent. I got some numbers that I want to share and it fits a little bit in something that I might say later on. We're right at 30 percent, maybe a little bit short of 30 percent right now as far as the taxes, property taxes on ag land, the total share of property taxes paid. As recently as 2009, it wasn't 30 percent, it was 22.4 percent. In 2005, which was ten years ago, it was 20.9 percent of the burden. So when we have seen a natural shift on...for property taxes, shift to the agriculture sector, and there are a lot of people in Nebraska and a lot of Farm Bureau members included that think it's time to shift that back to commercial and residential. And we believe that this bill would actually help accomplish that. There's a couple of things that I want to point out a little bit. In discussions that I've had with Senator Sullivan already as far as this bill, I understand that there are some districts that are going to get equalized and there are other districts that it's going to shift it from agriculture to residential and commercial. And in the long run, I cannot see unless somebody can explain it different that anybody will be actually hurt by this because I think they're either going to get picked up by the state aid formula and get that state aid to education or they will go back...and I don't think there's anybody going to deny that. They are going to go back and raise those levies to pick up that. They will get their local resources by raising their levies, but in doing so a little bit more of the burden will be shifted to residential and commercial. And that's a shift back in the right direction in a lot of people's minds. So I hope that this in the long run is going to be at least part of the discussion. And I sense a little bit of hesitation that this is going to be the total answer I understand that, but I think it needs to be part of the discussion. We talked about foundation aid here. We also...there's a bill in Education Committee that we have a lot of interest in, was the 20 percent income tax back to the local districts in the income tax allocation. I believe when you talk about part of the mix that that should be part of the mix because that's just as good as foundation aid and it's a neat way to help those unequalized districts. So there's a lot of tools in the toolbox. And the Legislature as a whole is going to have to figure the priorities out the best way to do it with the amount of money that we have, because I think if you add up all the total fiscal notes of all the bills, you'd be right at a billion dollars probably. And I don't think those

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resources are probably here having been part of this game before. So you're going to have to figure out what your priorities are, how to get the biggest bang for your buck. You have a huge job in front of you. If Farm Bureau can do anything to help that process, just let us know. If there are any questions, I'd be happy to answer them. [LB178]

SENATOR GLOOR: Questions? Senator Schumacher. [LB178]

SENATOR SCHUMACHER: Thank you, Senator Gloor. Senator, you were Chairman of the Appropriations Committee. Where's that billion dollars at? (Laughter) [LB178]

LAVON HEIDEMANN: You know, there are lot of good ideas out there, Senator. And in the end the Legislature always has to deal with something that they don't like to deal with, and that's called reality. And eventually on June 1, we will get to reality. [LB178]

SENATOR SCHUMACHER: Thank you, Senator. [LB178]

SENATOR GLOOR: Senator Scheer. [LB178]

SENATOR SCHEER: Your comments directed towards Senator Sullivan in regards to the shift, that does happen but it only happens if there's enough industrial and residential value. If you go to some districts farther west--and I shouldn't say farther west, it could east as well--and you have 85-90 percent of your total valuation is ag, if you reduce it 10 percent, I'm not sure the check that they're going to write the next year is actually going to be any different than what they wrote the year before because it's...there's such...the ag value in some areas is such a huge percentage of the total value that you could almost make it 50 percent and I'm not sure that it's going to make a significant impact on the check that they would write. [LB178]

LAVON HEIDEMANN: I will tell you, you are absolutely correct. But Senator Sullivan pointed out, there are some districts that are 40 on their levy. I didn't think it was quite that low. But I would have to venture to guess, and I haven't looked this up, but if I would have to venture to guess, those districts that are 85 percent of the valuation of property taxes on ag land are probably those that are at 40 and 50 and 60 and 70 on their levy. So, and I understand this isn't going to help them as much it would be other, but you have to understand that their levy is almost low enough that they get...they've almost given...well, I won't agree to say it that way. Because there's so much valuation on the ag land, their levy is low. Maybe it's that group, even though we want to help everybody, doesn't need quite as much help as the ones that are at \$1.05. [LB178]

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SENATOR SCHEER: Understood, but you're absolutely correct. I mean, the districts that would be at your maximum local effort rate are really the ones that would be the ones that...those ag people in those areas would see the biggest preponderance of the shift at that point if the lower...you're exactly right, the lower that mill levy is as a district basis, the less impact it will have on your agricultural. [LB178]

LAVON HEIDEMANN: Correct. There's a lot of different makeups of different districts, different counties in this state, and any bill...some of these bills, I should say, it's going to play out different. The only true one that it would not would be the property tax credit relief program that it is...which when that was brought up and I was here, it was based on valuation. And that's equal across the state as how you pay property taxes. [LB178]

SENATOR GLOOR: Senator Davis. [LB178]

SENATOR DAVIS: Thank you. Thank you, Senator Gloor. Senator Heidemann, appreciate your coming. Interestingly enough, the most agricultural district in the state, which is McPherson County, was an equalized district until this year and they just moved into unequalization status just this year. But I guess another thing that I just want to lay this out here. When you have the Lincoln Public School system growing at 1,200 students a year or whatever it is, it's a significant number, and rural districts declining. And since the formula has to do with needs minus resources and the number of students you've got and a few things like that, I wonder if this approach will ultimately just not produce anything. And, I mean, I'm not asking you to observe, make a comment. I'm just throwing that out there to think about. [LB178]

LAVON HEIDEMANN: Can I comment? [LB178]

SENATOR DAVIS: You bet. [LB178]

LAVON HEIDEMANN: You know, you talked about LPS and they're growing rapidly, and I understand that. And that makes their needs higher at that time. I don't care how many kids we have in rural Nebraska, there's still a need. And the person that was going to come and testify today said that they are 120 miles from their elementary school, and there's still a need there to educate those kids. And I don't think we can ever forget that. [LB178]

SENATOR DAVIS: And I'm not saying that. What I'm trying to say is when the urban districts have an increasing number of students all the time and the rest of the state is static or declining, we think we're going to get aid, we just never do. And more and more...or Gothenburg moved out of equalization, for example, this year. I mean, if you ask me what's wrong, it's the formula

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just has to be restructured. There's just...it doesn't work anymore. I'm sure you probably agree with me on that. [LB178]

LAVON HEIDEMANN: I was going to say thank you because I...but once you start to restructure, then everybody wants still their piece of the pie and Senator Sullivan has assured me she's going to make sure that this all works before she leaves. (Laughter) [LB178]

SENATOR DAVIS: Thank you. [LB178]

SENATOR GLOOR: Senator Heidemann, I can't let this go without a comment. One of the sentences in the letter from Ms. Storer is, there's an old axiom in tax policy that taxes paid should roughly equal benefits received. And I couldn't disagree more. I mean, realistically if that's the case, why not just take care of ourselves and avoid the overhead that gets involved in me making sure he gets his share and she makes sure he get...I mean, the reality is there are winners and losers any time we pay taxes. And to expect that we're going to get the same piece back that we contribute in just doesn't happen. I mean, I think it is one of those things that is an old axiom that people talk about but in reality tax policy just isn't built around getting your fair share. [LB178]

LAVON HEIDEMANN: I actually agree with that. I didn't read the whole letter. I think there is thought out there though in the ag sector of Nebraska that what we're paying in to support our local schools has become unportionable. [LB178]

SENATOR GLOOR: Yeah, and maybe there is a truth to the fact that you should get your fair share. The challenge is defining fair. The challenge is to find a very... [LB178]

LAVON HEIDEMANN: Which is different for different people. [LB178]

SENATOR GLOOR: Yeah, yeah. Thank you. Any other questions? Senator Schumacher. [LB178]

SENATOR SCHUMACHER: Thank you, Senator Gloor. Just a little follow up on that though. I mean, the nature of agriculture has changed so much, and a lot of the agriculture sector has benefited greatly from that change in wealth and income and has set you...every upside has got a downside and the downside if very few people, smaller communities, 120-mile rides to school. So to the extent that has driven up the cost, if you back off to the fairness issue, isn't it fair that it be borne by the benefit side of the equation? [LB178]

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LAVON HEIDEMANN: There's truth to that. I go back, and it shows my age a little bit, where there was a one-room schoolhouse every three miles. And you didn't hear people complain about property taxes at that time because there was a direct benefit there and they associated that. Now all those schoolhouses are gone. We're getting down to almost one schoolhouse in a district and the majority of some of these districts are supported by agriculture property taxes and not really the residential in the smaller towns because the valuation is not there. And I think that's the concern of some people. I don't believe there's anybody in the agriculture sector that I've run across that doesn't mind paying property taxes for K-12 education but especially to support counties so they have roads and bridges. I don't believe we hear that. But there is a concern that as far as when it comes to K-12 education, we think it proportionally has become out of whack. [LB178]

SENATOR SCHUMACHER: The dirt on those...on that dirt road between the two schools, as I remember that was terrible, and when it was uphill both ways. (Laughter) [LB178]

LAVON HEIDEMANN: I walked across the farm, so I avoided the roads. [LB178]

SENATOR SCHUMACHER: Thank you, Senator. [LB178]

SENATOR GLOOR: Thank you. Other proponents. [LB178]

LAURA FIELD: Good afternoon, Senator Gloor, members of the committee. I'm Laura Field, L-a-u-r-a F-i-e-l-d. I don't want to take too much of your time. I'm here today on behalf of the Nebraska Cattlemen, and much of what I have written down on my paper is what has already been said. We hear from our members over and over, we want to see property tax relief. We recognize that this one bill is not going to fix everybody's problems, And we certainly recognize there's a broader discussion at play, and we intend to be before you a number of bills to express our comments. And so I would just want to be on record that we see this one as part of the discussion. Our members support seeing valuations decreased in the broader picture. And so look forward to being before you again but wanted to get that on the record. [LB178]

SENATOR GLOOR: Any questions of Ms. Field? Seeing none, thank you, Laura. [LB178]

LAURA FIELD: Thank you. [LB178]

SENATOR GLOOR: Other proponents. Are there any opponents? Nice to have you back. [LB178]

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TOM PLACZEK: Good afternoon, Chairman Gloor and members of the Revenue Committee. My name is Tom Placzek, T-o-m P-l-a-c-z-e-k. I am the Platte County assessor and I am the representative for the Nebraska Assessors to NACO. I oppose this bill as an assessor due to the...on several levels but part of it is this is a programming nightmare for us for...we have our system done by MIPS. And I went and talked to the programmers at MIPS and asked them, okay, we're going to have to split this up. You're going to have two different values. You're going to have to come up with a different tax statement. You're going to have to have different reporting to the state now. This is going to have to be tracked differently. What kind of time frame are you talking about doing this? And, by the way, it has to be done before tax statements get ready to be sent out by December 1st. None of this is going to be done before probably June, so...and that isn't the only thing they're waiting to do in that time frame. And the head programmer over there said there is no way we can have it done this year. This is a very, very difficult thing to do. And everybody thinks you can program anything, and that is true. But there is a lot that goes into it. One of the issues I brought up with is I did bring just a sample, and I didn't bring it for everybody, just to show everybody, this is a Platte County tax statement. Pretty full. Now you're going to have to separate it out, separate the school part of it, separate different values. Probably I'm envisioning a two-part tax statement, probably once this gets out I can imagine the treasurers in the assessor's office spending the month of December explaining the new tax statement and what's going on. December is a pretty busy month. We're not going to have time for a lot of this stuff, not that the taxpayers aren't important, but again we have to do other jobs too. Some other questions. Will this change for the school? Will the current tax credit that is out there now, is it going to be applied on the full amount? Is it going to be applied differently with the lower level for the school? Is that...are they totally separate? What about the school bonds? Do the school bonds get approached, dealt with this or is it just the General Fund? So there's some questions out there that need to be answered. I don't see any of those questions being answered in this bill as it's currently written. A couple of comments that I heard from both Senator Davis and Senator Scheer: I don't believe this is going to accomplish a dang thing. If there's going to be any change, the school is going to probably just increase the levy a little bit to offset. They have a budget. Whatever comes in as the value, they'll just adjust the levy to meet their budget. This particular statement I had was for Lakeview School District, which is a rural school just outside of Columbus, very big district, has a lot of industrial, has a lot of residential. It does have a lot of farm ground in it. Their levy is 60 cents including the school bond. Will...Senator Schumacher lives, his house is I believe in Lakeview School District. Oh, yours is in Columbus. [LB178]

SENATOR SCHUMACHER: We're in District 1 now. [LB178]

TOM PLACZEK: Okay. So you wouldn't...you and I...I live in Columbus. Do what you want. Doesn't affect me. You know, this isn't going to change...any of the rural districts, not going to change it. It's just not. You can't...you're just shifting cards. I mean, there's just...there's nothing there. And by my account, I don't know where all this money is coming from. From my account,

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you've got over \$250 million amassed for today by two different bills. So good luck to you guys. That's all I got. This is just...I understand what they're talking about. Oh, one other thing that came up, and this is not as an assessor, this is just myself. I wish my balance sheet had gone up by 162 percent. I wish my house had gone up that much. I could borrow money. I could refinance at a lot better rate. My balance sheet would look fantastic. Just a comment. So...any questions? [LB178]

SENATOR GLOOR: Any questions of Mr. Placzek? Senator Brasch. [LB178]

SENATOR BRASCH: Thank you, Chairman Gloor, and thank you, Mr. Placzek, for your testimony today. When you had...I have a question on the levies. When the levies change, does that affect everyone's tax statement or just the rural area, the farmers, the people who are now paying 30 percent taxes to education? Or would that redistribute the responsibility of paying for education more evenly? [LB178]

TOM PLACZEK: If it's an entirely rural district, it would just...you would lower the amount of value to the school. That budget...you know, the way they would figure their levy, if they have a lower valuation, their budget is the same. So you're just going to have a higher levy to offset it. And in the rural district there's nobody to shift it to. [LB178]

SENATOR BRASCH: Does it...it does not change the tax statement of someone living in town out ten miles out in the country or... [LB178]

TOM PLACZEK: The people it would affect would be or the districts it would affect would be the district that has some balance between residential, perhaps some commercial, industrial, and ag. You would have a slight shift that way. Again, the Lakeview District, like I said, it's a lot of residential. ADM is in that particular district and it's probably got, I'm going to guess with personal property and everything, close to half a billion dollars worth of valuation that they're paying taxes on. This has a huge amount of valuation in this district. There would be some shift, you know. [LB178]

SENATOR BRASCH: There would be. Because... [LB178]

TOM PLACZEK: A slight amount because you're not talking a lot, but... [LB178]

SENATOR BRASCH: But still some. [LB178]

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TOM PLACZEK: A little bit. You go out further west, there's not going to be any...it's not going to make any difference because it's all rural anyway. And in Columbus, it's not...there's no rural, so there's no shift there too. So there would be some in some districts, yes, very...I think very, very little though. [LB178]

SENATOR BRASCH: And then your comment about...something about was it shifting cards or what... [LB178]

TOM PLACZEK: I think you're just...with all of this...to me this shifting is...how do I explain it? Basically, I don't think that it's accomplishing anything. I think that you're put...there's a...how do I want to say, it's viewed as that something is being done for the ag sector, but in reality nothing is happening. And because there's so little going on, in the urban area there's no effect, in the totally rural area there's no effect. Maybe in that hybrid, I'll call it hybrid transitionary around a town or something, yeah, there's going to be some shift. But I don't think it's going to be very much. I really, really don't. [LB178]

SENATOR BRASCH: I think what the problem that is shift or tax, a better tax share where 3 percent of the population is not responsible for 30 percent of funding of education. Do you see a way that we can redistribute taxes where everyone is responsible? Or, you know, is there another occupation perhaps that makes more sense to help share? You know, I... [LB178]

TOM PLACZEK: Well... [LB178]

SENATOR BRASCH: It seems to be occupation-based shift that we're looking at. Now if you're a farmer, then... [LB178]

TOM PLACZEK: But isn't part of that, and maybe this doesn't answer the question, but isn't part of that...when I started doing this in '75, 320 acres was a big farm. Now a thousand acres is probably needed, you know, just to be considered a farmer. So that's just normal progression of an industry. There's fewer people farming. There's fewer people on rural area because farms are bigger. So I think there's a natural shift of fewer people. They own more land. You know, I don't know how else to explain it. But it's...there are going to be fewer people paying the same bill. [LB178]

SENATOR BRASCH: In many situations, say, northeast Nebraska that I represent, the affordability is not there, you know, with the cost of inputs at a 300-acre farm. An average farm that you can make a living on today happens to be, and I think Department of Ag has a thousand acres to be able to afford the inputs and equipment and, you know, all else to run that. And our

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assessor had me sit and audit with them two-and-a-half hours and believe, you know, that we should be more equitable, that even the 10 percent, whatever the cuts are would still allow a healthy cash flow into the county for the subdivisions, the education, etcetera. But...and, you know, what you're saying is it would be shifting cards or... [LB178]

TOM PLACZEK: Well, maybe that was a poor choice, but I guess what I'm really saying is as Senator Scheer and Senator Davis said, that I believe when it gets down to the nuts and bolts of this, there just won't be much tax relief out there. I just really don't see it in this particular...and in this particular bill just from our...doing it is just going to be really, really difficult. You know, there's got to be a simpler way of doing this. It may be changing the school aid formula, which I know is super complicated and you have to be an MIT grad to understand that. But I sure don't understand it. But...so... [LB178]

SENATOR BRASCH: Thank you so much for your testimony. [LB178]

TOM PLACZEK: And I'm sorry, I'm not sure I'm answering your question, but... [LB178]

SENATOR BRASCH: We're here trying to look for the best possible solution, so thank you. [LB178]

TOM PLACZEK: You have a tough job. We haven't even talked prison reform and DHHS and all that other stuff that the money has to be paid for. [LB178]

SENATOR GLOOR: We're here looking for \$250 million, as you pointed out, except we refer to it as a quarter of a billion dollars. [LB178]

TOM PLACZEK: Yeah, yeah. And that's just today. (Laughter) [LB178]

SENATOR GLOOR: Good point. Thank you. Appreciate, Mr. Placzek. [LB178]

TOM PLACZEK: You're welcome. [LB178]

SENATOR GLOOR: Other opponents. [LB178]

LARRY DIX: Senator Gloor, members of the committee, my name is Larry Dix, spelled D-i-x. I'm the executive director of Nebraska Association of County Officials appearing today in opposition to the bill. Earlier...let me start off. I think, and we sort of had a little bit of this

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conversation down in the Government Committee today, this problem that we're in isn't a problem that we got into because a single bill passed two years ago, five years ago, or whatever, and we're probably not going to get out of it by passing a single bill here or there. We tend to look at it from the county's perspective. We always want to look at what happens to the tax base. And in this situation certainly the tax base for the counties, the way I understand the bill, would remain the same. When we look at it, we also come from another direction that a lot of people may not come from, and that is from what it would take for the counties to implement something like this. And this bill has been here enough times that we've had an opportunity to talk to our programmers. For those of you that may or may not be aware, NACO has a software service that we provide for a number of counties. Last year, we printed 300,000 tax statements for counties. And so we know what goes on behind the scenes. And this one here is what we call a database change, and it's significant. We're...and I've met with our programmers. And I would also tell you, keep in mind we're not the only company that does this. So there's multiple companies that would do this. We're a little bit concerned that we could even make the change in this program in a year's period of time. And I would tell you we probably have more programmers than some of the other companies out there. But that being said, it depends on how much money you want to throw at trying to solve a problem, and then we do shift a little bit of cost to the counties. So it's a legitimate concern. I know Senator Schumacher and I have had this conversation. In the world of computers, you can throw enough people at a problem and solve it, but maybe not quite that easy. The other thing that we have a little bit of concern about, our tax statements, of course, are going to look very different because we're going to have one line on there has less value, and if you take the total at the bottom times the levy, you're not going to come out with the correct tax. So there's going to be a little bit of confusion, taxpayer confusion. Things that we don't really have an answer to is once we roll around to protest time, can you protest either/or? Which value do you want to protest? When we notify the taxpayers, we're going to have to notify them, not only...we're going to have to notify them on multiple values. And we understand the tax statement has to have multiple values. Can you protest either/or to TERC? So when we look at this, I know the bill and I've talked to Senator Watermeier and talked to Senator Heidemann the years before this, the bill starts out at the front end of the tax process. But there's a lot of stuff that happens down the river that somehow we have to have some examples or we're going to have multiple software companies doing this in multiple different directions. And that's not the direction that we want to go in. So that's a concern. That's a legitimate concern that if we go down this path. We're trying to figure out what the endgame is. And if the endgame is to try to adjust the value to get more equalized schools into the system, I would tell you that by doing this you're going to reduce the value in some school districts and they're still not going to get equalized, and those school districts, they're in trouble, let me put it that way. They don't have enough value. They can't raise their levy high enough to continue what they're currently doing. Now there's going to be some counties that...or some school districts that are going to get caught in this because when I look at those school districts, I know there are some that are low enough now that when we do this, they're just not going to make the cut. So now you've created another

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problem for some of the school districts, in our opinion. But I think that's a fairly accurate statement. I think it probably wouldn't take too long to figure out which ones of those fall into that trap. So, I see I'm almost out of time. We certainly...as you know, NACO's here all the time on these tax bills. We want to try to figure it out. And as we all know, we've been here for a number of years trying to figure this out. It isn't just as easy as what a lot of people say. I want property tax relief. So with that, I'll open up to any questions that anybody might have. [LB178]

SENATOR GLOOR: Thank you, Mr. Dix. Questions? Senator Davis. [LB178]

SENATOR DAVIS: Just one. Larry, did you have any...did you ever have any kind of estimate done as to the cost to do this? [LB178]

LARRY DIX: From a software point of view? We would probably...well, the counties that use our software are in a very unique scenario in the fact that if a piece of legislation changes, we provide it to those counties at no cost. I mean, we as an organization would eat that. I would assume we would put five or six programmers on it for a year. It isn't...one thing, you have to program it, but now we got to get it out and we got to train the officials and you've got to test it. You got to make sure you redesign the forms. So I would imagine from that point of view you could put five or six full-time programmers...those are not, you know, low-cost, entry-level people. You could sort of... [LB178]

SENATOR DAVIS: So are we looking at half a million maybe? [LB178]

LARRY DIX: I would think we would spend at least that. Yeah. [LB178]

SENATOR DAVIS: Okay. Thank you. [LB178]

SENATOR GLOOR: Would you think it doable in a two-year window if the implementation date was pushed out and built in that way? [LB178]

LARRY DIX: Yeah. You...here's what worries me a little bit about pushing it out. We're in an area...and what I'm hearing from assessors, and I think as we get closer and closer to the end of the session we may hear a little bit more and more about this, is that ag land sales are starting to flatten. Okay. And I think auctions are indicating that to us, sales that are being recorded are starting to indicate that to us, and the lack of sales is starting to indicate this to us. Could I have a page just give me a glass of water, please? So if we move it out two years, if we move it...if we start to drop it at the same point in time that sales are starting to see a decrease, now we've really

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created a problem in some of these school districts that do not have a chance to get equalized. That's my thought. [LB178]

SENATOR GLOOR: Senator Brasch. [LB178]

SENATOR BRASCH: Thank you, Chairman Gloor, and thank you, Larry. I'm curious, how many of our 93 counties do use your software? [LB178]

LARRY DIX: I would say we're probably in area of 45 to 50. [LB178]

SENATOR BRASCH: Forty-five to fifty? [LB178]

LARRY DIX: Yeah. [LB178]

SENATOR BRASCH: And what do the others use? [LB178]

LARRY DIX: There's a number of other companies, but I would tell you Lancaster County has in-house system; Douglas County has an in-house system; Sarpy County has a company I think out of Illinois who does it. There's another...remember when we had state assessed assessors, the state went out, they contracted with a company, so they have about 13 counties. And there was another company that was here before that probably had another 30. So the half million is one cost, but you're going to replicate that across all those companies. And I can't speak for the other companies if they would provide it to the counties at no cost. [LB178]

SENATOR BRASCH: My other question is, is there an issue or a concern going, say, just from 75 to 65 as some of the proposals are? [LB178]

LARRY DIX: Right, and, Senator Brasch, similar to your bill, from a computer point of view you won't hear me say that there's an issue from the computer point of view, because we've already developed that software before. So the software is designed so it would handle a movement. [LB178]

SENATOR BRASCH: But it's been a while. Yeah. [LB178]

LARRY DIX: It's been a while, but the software is still there. Yeah. [LB178]

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SENATOR BRASCH: It's still...okay. All right. Very good. So I have no other questions. Thank you. [LB178]

LARRY DIX: Thank you. [LB178]

SENATOR GLOOR: Seeing no other questions, thank you, Mr. Dix. [LB178]

LARRY DIX: Thank you. [LB178]

SENATOR GLOOR: Other people in opposition. Good afternoon. [LB178]

GENE ECKEL: Good afternoon, Senator Gloor and members of the committee. My name is Gene Eckel, that's E-c-k-e-l. I'm on the board of directors for the Nebraska Association of Commercial Property Owners and I'm also on the board of directors for the Apartment Association of Greater Omaha and Lincoln. We are in opposition to LB178. But I do want to start off that all of our members are sympathetic to the property taxes that are affecting agricultural land. But our concerns with the bill are that we believe that once you decrease the valuation for agricultural and horticultural land it will cause an increase in property taxes for commercial and residential properties, especially in the urban areas and those areas that are mixed. And so when you have that issue where you take, you reduce the sum, some of those, the mill levies are going to have to find that somewhere else, so they're going to increase it and they're going to pull off the commercial and residential properties. Second of all, we think that when that happens the landlord will pass that increase in property taxes onto the tenants. Now, if you're in commercial property, we build the infrastructure for small businesses. So once you start increasing that price and increase the rent, that's going to affect those small business owners, especially if you want to start your business, you're trying to look at it on how much is it going to cost per square foot, well, that's going to increase for you. If you're a residential, it could go two ways. One, it could affect affordable housing because if you have a Section 8 or low-income tax credit property, you're capped off. You can't pass on that cost to a tenant. So that's where the property owner is going to start eating the cost there and that's going to affect them on how they budget for such things as maintenance. Then they might even decide that they don't want to be in Section 8 at that point. Then they're going to start increasing the cost, and that affects affordable housing for people in that area. So...and when you look at it, whether you're an apartment industry or just commercial property in and of itself, it's income producing just like agricultural land. We just feel that if you're going to try to do something with property taxes, we try to equalize it out. And in that case we don't want to see where agricultural land is being treated any more differently than commercial property owners are because we...you know, we're both income producing. And we do understand that there has been an increase in the valuation of the agricultural land, but that is probably going to be market driven. And I don't know, we don't have

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a quick fix for that. I'm not here to give any ideas on what a quick fix would be for that. But we would urge this committee just to take a look at that and consider that in our opposition to the bill. If you have any questions, I'll try to answer them but, again, I'm not an expert when it comes to agricultural land, so. [LB178]

SENATOR GLOOR: Thank you. Questions? Senator Brasch, then Senator Davis. [LB178]

SENATOR BRASCH: Thank you, Chairman Gloor, and Mr. Eckel? [LB178]

GENE ECKEL: That's correct. [LB178]

SENATOR BRASCH: I did not catch, what group do you represent? [LB178]

GENE ECKEL: The Nebraska Association for Commercial Property Owners. [LB178]

SENATOR BRASCH: For Commercial Property Owners. [LB178]

GENE ECKEL: And then the Apartment Association of Greater Omaha and Lincoln. In fact, we have members as far out as Grand Island. [LB178]

SENATOR BRASCH: And how many members? [LB178]

GENE ECKEL: The Commercial Property Owners have a little over 500 members and, bear with me here because I have that, for the apartment industry we have 35 property management companies that manage a little over 156 apartment communities. [LB178]

SENATOR BRASCH: Very good. And I thought it was very interesting that the message you're saying is that because ag land is taxed more disproportionate than the farmers are to be credited for lower rent and affordable housing, that those taxes provide less of a financial burden for your companies, that it would be a financial burden to lower their taxes. [LB178]

GENE ECKEL: Well, our concern is that if there's a lowering in the valuation for school districts, they're going to have to find that reduction from somewhere else. And our concern is that they're going to go and look towards commercial property and residential to make that up, and that's...in particular, the urban and mixed areas. I don't know if I answered your question but that's just our concern. I wanted to clarify that. [LB178]

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SENATOR BRASCH: And I hope you understand that the reason from corner to corner of all of the state of Nebraska and through ag modernization as we're looking to make the tax responsibility we all share be more evenly distributed and not just based on one occupation or...and we wouldn't want it to be entirely on the backs of your organization, but perhaps redistributed in a better way. Would you think that would be fair? [LB178]

GENE ECKEL: Well, we certainly...we understand that that might be the objective here. We're just worried what the outcome might be. And by all means, I understand, this is an issue that the Legislature has been dealing for decades. I was a legislative aide in 1995-1996 and we were dealing with property tax issues back then. And this is not a difficult issue to resolve. So we do appreciate that. I appreciate it. We're just concerned about what the, you know, spin off might be. But we certainly understand that you guys are trying to equal it out. [LB178]

SENATOR BRASCH: Very good. I have no questions. Thank you. [LB178]

SENATOR GLOOR: Senator Davis. [LB178]

SENATOR DAVIS: Thank you, Senator Gloor. Mr. Eckel, I wonder if you have, if you can get this information for me, the percentage of your gross income that would go towards property taxes? [LB178]

GENE ECKEL: I can certainly look into that, Senator Davis, and we can get back to you. [LB178]

SENATOR DAVIS: Oh, so you don't know what that would be, do you...that figure would be? [LB178]

GENE ECKEL: You want to know the percentage of gross income? [LB178]

SENATOR DAVIS: Um-hum, for both commercial properties and apartments. [LB178]

GENE ECKEL: Senator, I would be more than happy to look into that and get back to you on that. [LB178]

SENATOR DAVIS: Thank you. I appreciate that. [LB178]

GENE ECKEL: Sure. [LB178]

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SENATOR GLOOR: Any other questions? Thank you, Mr. Eckel. Oh, I'm sorry. Senator Smith. [LB178]

SENATOR SMITH: Yes, please. Thank you, Mr. Chair. And, Mr. Eckel, thanks for coming and testifying. And I think if I'm trying to get at your testimony, I think it's fairly clear that you're supportive of tax relief for property but not when it is a redistribution, when it's a shift from one sector to another. And I think we all understand that property taxes are too high, particularly on agriculture. I think that's understood. But if I understand correctly, what you're advocating would be to have a reduction in expenditures that would bring everyone's down, all businesses down, not shifting the burden from one sector to another. And if I understand a little bit of what Senator Davis is asking, talking about the gross income portion that's related to taxes, that's going to vary from business sector to business sector. Each business sector has a different set of expenditures or costs reflected in their business. So I certainly understand in agriculture it's a larger portion but in some commercial sectors of business there may be other costs of doing business that are significant. And so maybe that percentage of property tax would not be as much. I think getting back to what the real concern here is from you if, I understand, is not to redistribute or to shift the burden from one sector to another because it will create an economic impact, cost of doing business. Am I correct in what I'm saying? [LB178]

GENE ECKEL: Yes. And, again, I have no idea how this committee was going to try to answer that question. But if that's the way to do it, we would be supportive. And we're supportive of any ideas. We just do want to be aware it's a tax shift from one property owner to another property owner. [LB178]

SENATOR SMITH: So as an example, myself, I'm a property owner both commercial and residential and my commercial property taxes is certainly a smaller portion of my cost of doing business than it would be for agriculture. But if that shift came across to my business, I would have no recourse but to increase my cost to the consumer which would create that trickle effect through the economy. So I think that's what your point was. [LB178]

GENE ECKEL: That would be correct. [LB178]

SENATOR SMITH: All right. Thank you. [LB178]

GENE ECKEL: Thank you. [LB178]

SENATOR GLOOR: Any other questions? Thank you. [LB178]

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GENE ECKEL: Thank you, Senator. Appreciate it. [LB178]

SENATOR GLOOR: (Exhibit 3) Others who would be in opposition. Seeing none, anyone in a neutral capacity? And I would mention that we also received a letter from the Corn Growers also in a neutral capacity. [LB178]

RENEE FRY: (Exhibit 4) Hello again. Members of the Revenue Committee, my name is Renee Fry, R-e-n-e-e F-r-y, and I am the executive director of the OpenSky Policy Institute. I'd like to start by saying that we agree with everything that Senator Watermeier said, but we're testifying neutral because of the concerns that have been raised today both by the committee and by people who testified in opposition. We appreciate Senator Watermeier's interest in reducing property taxes for ag landowners and we like that the bill doesn't negatively impact other localities, however, we have significant concerns about the fiscal impact to our schools, particularly nonequalized districts. And like other proposals that reduce taxable valuation of agricultural land, the taxpayer impact is disparate with the least benefit going to producers and highly agricultural districts where the levies will be increased to make up the revenue loss. So I wanted to walk through what I handed out to you today, our analysis of LB178 as if it had been fully implemented in FY '15-16. The total revenue loss for schools in that first year would be \$182.5 million. The state aid increase would restore only about 31 percent of that loss. Aid increases would replace 90 percent of the losses in equalized districts but only 13 percent of the loss in nonequalized districts. Schools would have \$125 million left to make up through levy increases or spending cuts. And 96 percent of that loss would be in nonequalized districts who would need an average levy increase of 15.7 percent and up to around 28 cents or 15.7 cents, excuse me, and up to around 28 cents. At least 32 districts that are primarily nonequalized districts with relatively high levies would be unable to make themselves whole without going over the \$1.05 levy limit. And even after the influx of TEEOSA aid, total levies would have to increase in 93 percent of school districts. And I mentioned the impact is very disparate depending on where those taxpayers live. We would suggest an alternative that Senator Davis has as part of LB280 which would reduce ag land for TEEOSA purposes only, and this would pull those 40 school districts into equalization without having the disparate effect on taxpayers and without reducing revenue for school districts. I do have a list of the 40 districts, Senator Sullivan. If you're interested in knowing more about them I can sort of summarize for you. Fourteen of the forty would need a levy override to break even, even though they're being pulled into equalization. Their current levies range from 73 cents to \$1.05 and their ag land ranges from 29 percent to 89.5 percent. But I do have the list of districts that I'd be happy to provide to you. There was a previous question. Senator Davis, you asked, there are 159 nonequalized districts and 86 that are equalized. And there was a question raised about the districts that are 85 percent ag land. There's five districts and those levies range from 51 cents to a dollar. And I'd be happy to answer questions. [LB178]

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SENATOR GLOOR: Ms. Fry, I've got to ask, given this sheet, if Senator Watermeier's bill were to go through as presented, as drafted, would OpenSky still be neutral on this bill? [LB178]

RENEE FRY: We struggled a lot with whether we were going to come in neutral or in opposition. And, quite frankly, we didn't finish the analysis until this morning, and so we didn't really have an opportunity to...we did share this information with Senator Watermeier's office before the hearing but didn't have enough time to actually sit down and talk with him about it. [LB178]

SENATOR GLOOR: So if there were a category of incomplete decisionmaking you might fit into that category? [LB178]

RENEE FRY: If we had been able to get to the bill earlier and spend some time looking at it, we would be in opposition. [LB178]

SENATOR GLOOR: Okay. [LB178]

RENEE FRY: We're definitely very concerned about the impact the bill would have and we do think that there are better ways to address the issue at hand. [LB178]

SENATOR GLOOR: Okay. Senator Davis. [LB178]

SENATOR DAVIS: Thank you, Senator Gloor. I realize it's late. I'll be brief. But so as I read this, 96 percent of the loss would be in nonequalized districts, then you'd have to increase these levies by 15 percent up to 28 percent pretty much, correct? [LB178]

RENEE FRY: Fifteen cents up to twenty-eight cents. [LB178]

SENATOR DAVIS: Fifteen cents. So in some districts that might result in a 35 percent increase or 40 percent increase in property tax as a shift basis to other types of property, residential and commercial? [LB178]

RENEE FRY: I think that's right. We could go back and pull the percentage increase if you'd like. [LB178]

SENATOR DAVIS: It still might result in very little benefit for the agricultural producers, right? [LB178]

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RENEE FRY: Correct. Yeah, particularly in those areas that are heavily agriculture, yeah, they're not going to see the benefit. [LB178]

SENATOR DAVIS: And I know you said the...you made mention of the 89.5, and I think if you look at the new values on that particular district it's now 94 percent ag, it's up another 5 percent, that's McPherson County, right? [LB178]

RENEE FRY: Yeah. These are actually...these are current year though. [LB178]

SENATOR DAVIS: Are they? [LB178]

RENEE FRY: Yeah. [LB178]

SENATOR DAVIS: I had an e-mail from the attorney or the county clerk there and I thought that she told me they were at 94, so I'll get that and find it and send it to you. [LB178]

RENEE FRY: Okay. Yeah, that would be great. [LB178]

SENATOR DAVIS: Thank you. [LB178]

SENATOR GLOOR: Senator Scheer. [LB178]

SENATOR SCHEER: Thank you for the information. [LB178]

RENEE FRY: You're welcome. [LB178]

SENATOR SCHEER: And if you might as well...would you please either drop a copy or send me a copy of the list as well? [LB178]

RENEE FRY: Yeah, absolutely. I also have a longer list with a little bit more information, but I wanted to try to hit the high points today. I can send you the long version. [LB178]

SENATOR SCHEER: That would be great. Thank you so much. [LB178]

RENEE FRY: Sure. [LB178]

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SENATOR GLOOR: Seeing no other questions, thank you, Renee. [LB178]

RENEE FRY: Okay. Thank you. [LB178]

SENATOR GLOOR: Others who would like to speak in a neutral capacity. Afternoon, Senator. [LB178]

LORAN SCHMIT: Good afternoon, Senator, members of the committee. My name is Loran Schmit, and I'm testifying here today in a neutral position, something I do not like to do, because I see good aspects of most of these bills that are brought before the committee and recognize the problem which we all are trying to address. [LB178]

SENATOR GLOOR: Senator Schmit, could I ask you to spell your name, please? [LB178]

LORAN SCHMIT: Yes. L-o-r-a-n S-c-h-m-i-t. I will recall the first reduction from 110 percent to 75 percent valuation for farm property. At that time, there was vigorous debate on the legislative floor as to what would be the long-term result. And the proponents of the legislation at that time really very seriously committed that it would solve the major problem once and for all. There were two rural legislators who voted against that proposal. I was one of them; Senator Warner was the other. We all recognized that schools absorb most of our tax revenue today. And when I first came to the Legislature, I asked Senator Warner, will you explain to me the method of determining the wealth of a school district. And I still do not understand exactly how it's done. And I hope maybe sometime, Senator Sullivan, you can enlighten me. Well, that was back in the old days and I asked Senator Warner, I said, why do we have the equalization? Why not just have a per capita payment? He said the reason for that is, number one, to bring all rural land into the K-12 districts which will result in the closing of the Class I districts and we will have a more equitable method of funding the schools. Obviously, those of us who lived in the rural areas at the time recognize the advantages of living in rural area, and transporting our children to those schools in the Class I school areas. And we enjoyed that benefit for many years. Also, in the days when Senator Heidemann and I, myself, walked to school, the parents were responsible for getting the kids to school. We carried a lunch. If some kid got hit by a baseball bat, the school teacher put a cold cloth on his head and sent him home. That was the healthcare. Today the schools operate the largest transportation system in the state, the largest restaurant facilities in the state, probably the largest unified healthcare systems, and certainly the largest entertainment system, all at taxpayer expense. And just recently in my district, in my community, two schools merged for purposes of economy because they could better utilize equipment in those two districts. As of this last week, the local paper notified us that the superintendent had proposed a new \$14.6 million construction program for the district. (Laughter) The old buildings are no longer adequate and it will cost more to repair them than it will be to build a new building. Also

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called for construction of a new gymnasium, a new football field, new track facilities, etcetera, etcetera. No need to go on with that. I think the first state aid bill was about \$40 million; last one almost a billion dollars. And try to find where it has reduced the property taxes. When Governor Heineman...not Heineman, when Governor Johanns was a candidate for Governor and he was approached about more state aid, he said show me where the state aid has reduced property taxes. And we really can't do it. We all recognize today we have a tremendous problem. But as the county assessor from Platte County said, when you have \$14,000 land sales in a community, what are you going do? The assessor said you got to use comparable land sales. And so we've got a real problem. The income does not justify that price, certainly not today. Interestingly, just recently, dryland in (inaudible) County sold for \$9,500 to \$8,500 an acre, nonirrigated. That certainly won't justify that price, but we're going to create it ourselves. We have a real difficult situation. The cattlemen were making good money for a while. All of a sudden feeder cattle dropped \$40 a hundred in two-weeks' time. So what looked like a really good price a few weeks ago has suddenly become not so good. So by testifying in a neutral position, I want to emphasize, I recognize the problem, I recognize the need for corrections, but I think we really have to sit down and take a long look at it. And if you can solve this problem in this legislative session, you're all wizards because it just cannot be done. You can hopefully take some steps in the right direction. But in 1976 I think it was, I passed a bill, LB518. Took the tax off business inventories, farm equipment, and livestock, three separate years. I believe most of that has been restored now over the last few years beginning in 1990 with the so-called heifer tax because we needed the money. Anyway, nothing that any legislature does ever remains permanent. It always has to be adjusted and readjusted and tipped, tweaked, and so forth. Hopefully, these bills you have here today show a very serious concern by members of the Legislature of a problem, and many of you are brand new at it and are really impressed with these situations. When I think of the tax on my 100-year-old house it's almost half what my grandfather gave for the entire acreage back in 1937. But that's history. So I commend you for taking time to do this. My clients at ethanol plants frequently are one of the largest taxpayers in the taxing district in which they're located. So they have a deep interest, but I have no directions from them as to how to proceed on these bills except taxes are too high. (Laughter) And so with that, I'll answer any questions. [LB178]

SENATOR GLOOR: Any questions? Thank you, Senator Schmit. [LB178]

LORAN SCHMIT: Thank you. [LB178]

SENATOR GLOOR: Anyone else in a neutral capacity? Seeing none, Kim, do you think your senator is waiving closing? All right. Then we'll end the hearing on LB178. And at this time I will turn the gavel over to Senator Schumacher who's Vice Chair. [LB178]

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SENATOR SCHUMACHER: And this will open the hearing on LB259 at ten till six. Senator Gloor, welcome to your committee. [LB259]

SENATOR GLOOR: Thank you, Senator Schumacher and members of the committee. Now as Monty Python used to say, "Now for something completely different." And I will try and be brief and succinct on this bill. The bill would create a Personal Property Tax Relief Act. The act would exempt...I'm Senator Mike Gloor, G-l-o-o-r. This bill would create the Personal Property Tax Relief Act. The act would exempt the first \$25,000 of valuation of depreciable, tangible personal property from the personal property tax. The exemption applies to each taxpayer filing a return. An annual application process is required to receive the exemption. The county will certify the amount exempted to the state and the state will then reimburse the county and the county reimburses each taxing agency. And this is where the succinctness comes in. I'll give credit to this to staff who looking for some way that's a little different to provide property tax relief. And as we talked about it, as I asked for some time during the summer to sit down with staff of this committee to talk through some of the issues that were out there and get me as up to speed as I could on the past history and the work done by the Tax Modernization Committee, this is one of the things that I said I would, in fact, want them to pursue and put together a bill so that I could introduce as we talked during the interim. It's simple. Its intent is to be simple in form and function. Its focus is on ag and small business, although it certainly provides benefits to anyone who has personal property on their tax form. I think it helps start ups in particular, whether it's ag, manufacturing, or whatever, since cash flow is a problem during the first couple of years of any start up. This \$25,000 can certainly be of great help in pulling them up a little bit and helping them towards success. It doesn't get into the intricacies of education funding really. And, finally, one of the things that really appealed to me about this, and I was reminded of it in talking to M.J. today is that it helps Nebraskans, whereas the property tax credit can help absentee landowners, non-Nebraskans who may own and do own a considerable amount of Nebraska's property. In this case, we're really talking about the people who work that land. Those are the people who are most likely to benefit as a result of this, not the landowner per se. But when you take a look at I think the pluses and minus of some of the other bills we have out here, those things we do that affect land specifically are going to help people who are non-Nebraskans as well as Nebraskans. And this is more likely to be a little more geared towards Nebraskans. And so that's the philosophy in general behind this bill, something to add to our mix as we sit down and take a look at the various issues that are out there. And, yes, this bill, combined with Senator Watermeier's bill, combined with Senator Bolz's bill takes us up to about a quarter billion dollars in tax relief. Any questions? [LB259]

SENATOR SCHUMACHER: Senator Gloor, one of the aggravations that I have with the personal property tax is that as a small business person is filling out the forms and the paperwork that's involved with it, perhaps more aggravating than the amount of the tax. What do you see

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having to be done with these forms and how much information are they going to want in order to grant the exemption? [LB259]

SENATOR GLOOR: We talked about that and in reality don't see that it...let's put it this way, we think it can be done in a manner that is relatively simplified. Do I think there's going to be a lot of enforcement that goes on? I don't think there will be any more enforcement than currently goes on when people fill out the forms. And so the question is I suppose to us if we decide to move forward with this, how onerous do we want to make people's ability to take advantage of this? And that's where you get back to deciding how many people really fudge when it comes to personal property tax, the personal property listing that they have out there. So I don't have a specific answer but my preference would be not to build a huge bureaucracy around enforcement of people's ability to take advantage of this. [LB259]

SENATOR SCHUMACHER: Any other questions? Senator Davis. [LB259]

SENATOR DAVIS: Senator Gloor, you mentioned you thought this would be beneficial because people who live outside the state may not get any...wouldn't have the benefits that created it... [LB259]

SENATOR GLOOR: As much of a benefit. [LB259]

SENATOR DAVIS: And my point was going to be, you know, if center pivots are treated as personal property, if I can recall, so if you're an out-of-state person you put a new pivot on, that's going to be a personal property, isn't it? [LB259]

SENATOR GLOOR: Certainly. Yeah, certainly. And don't argue the fact that some will, but when you consider, and I think of friends that I know who no longer live in the state but who have family farms, they're working with the same farmers who have farmed it for them or that leased land from them for decades. And those are the people I have in mind when I think about that. [LB259]

SENATOR DAVIS: Thank you. [LB259]

SENATOR SCHUMACHER: Any other questions? Senator Scheer. [LB259]

SENATOR SCHEER: In the fiscal note it talks about the 1 percent to be retained by the county. Not trying to gyp the counties out of their money, but these taxes are usually paid to the state, not the county. [LB259]

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SENATOR GLOOR: The 1 percent is when we return funds to the counties to make them whole and they then have to distribute it to the community colleges and whoever. This 1 percent goes to the counties then for the administrative process of returning those funds to the appropriate buckets. That's what the 1 percent is for. [LB259]

SENATOR SCHEER: Okay. Thank you. [LB259]

SENATOR SCHUMACHER: Any other questions? Thank you, Senator Gloor. Proponents for LB259. [LB259]

JESSICA KOLTERMAN: Thank you, Senator Schumacher and members of the committee. I come before you tonight on behalf of a variety of organizations. I want to list them all to make sure we get them on the record. Of course, Nebraska Farm Bureau where I serve as a lobbyist; the Nebraska State Chamber of Commerce and Industry; the Nebraska Bankers Association; the Nebraska Federation of Independent Business; and the Lincoln Chamber of Commerce. For the record, my name is Jessica Kolterman, J-e-s-s-i-c-a K-o-l-t-e-r-m-a-n, and I serve as the director of state governmental relations for Nebraska Farm Bureau and I come before you on their behalf. As you know, Farm Bureau has taken a strong interest in legislation related to property taxes. Our member-driven policy on personal property taxes follows our policy on any property taxes, and that is that we should reduce them. We're fully aware of the many decisions you as senators are going to have to make in weighing the different proposals that come before you. But in your discussions if you believe that personal property taxes and reductions on those should be part of the property tax relief puzzle, we certainly support that. At the end of the day, our goal is to lower the cost of doing business for our members. Unlike traditional property taxes, personal property taxes are part of the cost of doing business in Nebraska. Anything you can do to lessen the tax burden on farmers or ranchers is appreciated. With that, I will close and take questions. [LB259]

SENATOR SCHUMACHER: Any questions for Jessica? Thank you for your testimony, Jessica. [LB259]

JESSICA KOLTERMAN: Thank you. [LB259]

SENATOR SCHUMACHER: (Exhibit 1) More proponents to LB259. I should note that Matt Litt for the Americans for Prosperity in Nebraska has filed a document as a proponent in this matter. Now, any opponents? Calling for opponents to LB259. Seeing none, neutral position. [LB259]

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TOM PLACZEK: Hello again. [LB259]

SENATOR SCHUMACHER: Welcome back. [LB259]

TOM PLACZEK: Tom Placzek, P-l-a-c-z-e-k, Platte County assessor representing Nebraska Association of Assessors, and I'm their legislative rep to NACO. We're basically neutral on this bill from the standpoint that the county is made whole, so there is really no cost to us from the standpoint of monies. A couple of facts here that I thought might be interesting for the committee and I'll make this very brief because it's been a long day. We have a total of 2,337 personal property applications that are filed in Platte County. There are 1,340 of them are of \$25,000 or less, and the remaining 997 is greater. Of that 1,340, 880 are commercial; 460 are ag. And that kind of makes sense. I mean, ag interests tend to be bigger operations. So...but they would all benefit. So, you know, in Platte County you could take 2,337 times \$25,000, there you go. Obviously, you don't know what the money, total amount of tax would be because different districts and stuff. But our only real problem with this--and there should be a treasurers' rep here because that's who really has a problem--the way I read this and the way it's...I've had some treasurers read this is this is set up similar like the homestead in that the way the reimbursement works, that sort of thing. And it is a lot of work, takes a lot of time to get it all right and generated. There's a lot of reports that have to get written and sent to the state and all that kind of stuff. We have to do some of it. They do a lot of it. They spend a lot of time getting it right. And, obviously, when you're getting reimbursed by the state, it...you know, you get audited pretty good and all that kind of stuff. So that's fine. We're just wondering if there isn't a simpler way of doing this similar to like the property tax credit is now. And I'm not sure if that's exactly a great way of doing it, but I think there's got to be a simpler way of doing this, and just an easy reduction or something taken off of it. I'm not sure exactly how all the mechanics work. But I'm not a programmer so I don't know about that. But the general idea we have no problem with. So I just thought I'd give you a little bit of information. It would take some time to get the programming set up. Although it is similar to the homestead, it would still take some time and effort to get that done. I thought the numbers might be interesting to you. That's all I've got. [LB259]

SENATOR SCHUMACHER: Okay. Any questions for Tom? Seeing none, thank you for your testimony. [LB259]

TOM PLACZEK: Thank you so much. [LB259]

SENATOR SCHUMACHER: (Exhibits 2-4) More neutral capacity? Seeing no neutral capacity, we can note that Len Sloup, Nebraska Department of Revenue; Diane Battiato, Douglas County

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Attorney; and Corn Growers have filed documents in neutral. And I probably butchered that name. Senator Gloor to close. [LB259]

SENATOR GLOOR: Senator Davis' wife has been waiting so patiently I thought I'd keep her company. (Laughter) Unless there are questions, I'd waive closing. You can certainly visit with me afterwards if you have additional questions. Thank you. [LB259]

SENATOR SCHUMACHER: That would close the hearing on LB259. [LB259]