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Revenue Committee
March 05, 2015

[LB398 LB414 LB424 LB476]

The Committee on Revenue met at 1:30 p.m. on Thursday, March 5, 2015, in Room 1524 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LB398, LB414, LB424 and LB476. Senators present: Mike Gloor, Chairperson; Paul Schumacher, Vice Chairperson; Lydia Brasch; Al Davis; Burke Harr; Jim Scheer; Jim Smith; and Kate Sullivan. Senators absent: None.

SENATOR GLOOR: Good afternoon and welcome to a Thursday afternoon gathering of the Revenue Committee of the Legislature. I'm Mike Gloor. I'm the Senator from District 35 which is Grand Island. I'm chairing the committee. The committee will take the bills in the order listed on the agenda posted on the back of the room. If you plan to testify, I would ask that you fill out one of the green forms that's in the back of the room. We have some general rules that I'd like to follow. Maybe that's a better way to start out with my preamble here. Probably one of the more appropriate ones that you can understand is, turn off your cell phones or put them on silent if you would please, so you don't disrupt the proceedings. The order of presentation today for this bill and the other three bills that are up there is that we will have the introducer open. We'll then go to proponents, opponents, those in a neutral capacity, and then the introducer of the bill, if he or she chooses to do so, will close on that bill. Again, you need to fill out a green form if you are going to testify. When you come up, hand it to the clerk, if you would, and then understand when you sit down, we need you to give us your name and spell your name so we get it accurately for the record. We have a light system here. We ask you to be concise and hopefully not redundant with other testifiers, but to keep moving things along we give you five minutes to do that and a maximum, you get a green light for the first four minutes, then you get a yellow light for the last minute and then it goes red and we ask you to stop when the light goes red or wrap things up as quickly as you can, if you would please. I made a mention of redundancy. What I mean by that is, we don't need to hear the same testimony five different times. You can always come up here and say, I'd like to put an emphasis point on the previous testifier, or you can go to the back of the room where there are white sheets and you can sign your name and mark whether you are in favor or opposed to a specific bill and that will also find its way to the public record. If you have written material, we need 11 copies, hand those in while you're handing in your testifier sheet. If you don't have 11 copies and you suddenly realized that, the pages are here to help you...or the page is here to help you. And we'll get those copies run off for you, so now would be a good time to get their attention if you need copies made. To my immediate right--we'll go through the introductions now--is Mary Jane Egr Edson who is our counsel for this committee; Krissa Delka is the clerk, she's sitting on my left; and Kay Bergquist is the research analyst for the committee, on my far right. And with that, I will ask the committee members who are here to introduce themselves, starting with Senator Smith.

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

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SENATOR SCHUMACHER: Paul Schmacher, District 22, that's Platte and parts of Stanton and Colfax Counties.

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

SENATOR HARR: Burke Harr from Legislative District 8 which is central Omaha.

SENATOR GLOOR: There are committee members who will show up. Most of you, as I look through the audience understand this, are seasoned testifiers or listeners at least, but there are other bills that they have to present and so there's always some coming and going while they go down and fulfill those responsibilities in front of other committees. Our page today is Colin. Colin is from Wayne and he's here to help you as well as help us and I think we'll get started. Senator Harr, LB398.

SENATOR HARR: Thank you, Chairman Gloor and members of the Revenue Committee. My name is Burke Harr, H-a-r-r. I'm from Legislative District 8. I'm here today on LB398. Let me start by saying I dropped LB398 before I had a chance to completely read LB259, which is Senator Gloor's bill on personal property tax, which is very similar to my bill. And so, I think a lot of what you're going to hear from me today is redundant, which I was just told not to do, of what Chairman Gloor said. So, I'll try to, as I'm going through here, I'm going to kind of skip around a little bit so I'm going to cut a lot of this out. But as we...I sat on the Tax Modernization Committee with a number of you and as we traveled across the state what we heard was that there are three different kinds of taxes, the property, sales and income tax. And that the one that is probably most out of whack is the property tax and that was heard largely from our rural friends, but it's a real issue. As you've also heard, when I was testifying on the...or when introduced to move ag from LB75...the two bills from LB75 to LB65, the growth of property tax among the sectors is, we're basically back to where we were in 1992 according to the farm revenue as far as percentage of the pie, as far as percentage of being ag, percentage of residential, percentage of commercial. It's just residential has risen and commercial has slowed, kind of like a frog in boiling water. The water has been brought to boil whereas for ag, it's the last couple of years they've been dropped in there and so they fight it a lot more and justifiably. And it's good because it has woken us up to the fact that while the percentages are the same, the...within property tax, if you look at the three types of taxes as a stool, property tax is a larger proportion. Each one should probably be about a third, a third sales, a third income, and a third property. And what we found is that property tax is out of whack and there are a lot of reasons why we can say that happens. But what we...instead of blaming anyone, what we should be doing is looking for ways to solve that problem. And that's what I'm doing with LB398 is looking for a way to provide real and substantial property tax relief for everybody, not just urban

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or rural, but something that goes across that's still done in a way that's constitutional. And so in doing that, I looked at LB398 which, you know, you asked the question...well, LB398 what it does it eliminates the personal property tax. These are largely paid by businesses and so we have a way of helping those in the urban area and those in the rural, those in manufacturing, and our farmers who have large expensive combines that every year they have to pay...while, they don't pay a sales tax upfront, they pay a large tax every year, a personal property tax on this equipment. And so, that is the motivation behind this, my bill. I don't want to go too much further just because I feel like I'd be redundant with what we had on Senator Gloor's LB259, but I'd be willing to introduce...or take any questions you might have. [LB398]

SENATOR GLOOR: Thank you, Senator Harr. Are there questions? Senator Harr, am I correct, your bill does not reimburse the counties for the lost revenue? [LB398]

SENATOR HARR: Yes. [LB398]

SENATOR GLOOR: Yes, it does not. [LB398]

SENATOR HARR: Yes, it does not. And so...and this is probably why we're so good at having low sales and income tax is because we're really good on the state level of pushing expenses down to the county level. You know, you look at it, and this is why I say, you look at sales and income tax and we're 22nd or 21st in this country according to the tax foundation. When you add property tax, we all of a sudden slip to 49, and so that tells you why we're so disproportionate on our property tax. So the question is, are we just robbing Peter to pay Paul, and it's a very valid question. And I think we have to find ways to pay for this. And I think this is the proper route to go and I think I'll continue to work with committee. I have some ideas I've been working with whether it's adding a small sales tax on certain items to pay for upfront is simpler. There might be some constitutional issues there. You know, here's the other thing. I hate to say it, but I actually read a Ruth Sorensen's property report and it's interesting and I wish I would have brought it. But what it shows is that you look at...we used to fund TEEOSA...well, when we funded TEEOSA fully and we gave city and county aid, it was about \$180,000,000 a year, or it was \$160,000,000 a year. Now after...then in 2008...'10, we cut that off, right. We got rid of city and county aid and TEEOSA has been changed. If we fully funded TEEOSA today, and if we went back to paying city and county aid, we'd be at \$180,000,000, right at that. Well, how much is in the property tax relief fund? About one hundred and eighty-five, I think, a year is what we're looking to do. So what we've done is...and I'm repeating myself, but we have a very high marginal rate for sales and income tax and we collect that money and we collect about \$180,000,000 too much and then what do we do? We don't give that back as direct aid so we make the counties raise their property tax and then they have a high marginal rate. Now, the effective rate is lower because it's brought down by that property tax relief fund, but nobody sees

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that. And so when these outside sources are doing all their rankings, what you see is that we have a very high number, higher than we actually pay but it's very difficult to come up with effective rates. So what I'm looking to do is to fund this and maybe that's by moving money from the property tax relief fund over to elimination of personal property tax, maybe it's in combination with the sales tax or something, but we have to find a way to get money to fund those programs that we want while also finding innovative ways to bring new industry into the state. You know, the worst thing we can be doing is chasing dollars and trying to get new industries here as opposed to having attractive tax climate where they want to come here. Instead of chasing and begging them to come here, it's better to have a good tax climate where they want to come here. And I've done some research. Indiana gets a lot of positive publicity for giving their local counties and cities the ability to waive collection of the personal property tax. They don't even get rid of it, they just give them the ability to. And they're getting a ton of positive publicity. Well, what if we got rid of it altogether? Would we all of a sudden become a new manufacturing hub? It's a great question and I would like, you know...so this needs a little bit more research. But, you know, I think your bill, LB259 is a good way to start because what we do there that I don't, is you found a way to fund it, and we get people comfortable with the idea of elimination of the personal property tax and showing how much is really collected. [LB398]

SENATOR GLOOR: Senator Schumacher and then Senator Sullivan. [LB398]

SENATOR SCHUMACHER: Thank you, Senator Gloor. Thank you, Senator Harr, for bringing this to us. In the really good businesses where there's lots of money moving, lots of high-talented needed, you don't need much personal property. You need maybe a computer and a phone and a conference room, but the personal property isn't intensive like it's in manufacturing or farming. So if we want to address the cream of the cream type of activity, will this do that much good in that area? [LB398]

SENATOR HARR: Well, and that's the question is what kind of economy do we want to have? You know, a lot of what you're talking about, those high-end tech jobs are found where? They're found in urban areas and they do nothing for our rural friends and so we have to find a way that provides tax relief for both areas. What I'm looking for is...and this is to find a way, and ethanol was the one that opened my eyes to this, is we bring in ethanol plants and, you know, right now before we use to raise the corn, take it to market, and we never saw it again. And what you talk about is, there use to be four families to a section, now there's four sections to a family because less people can grow more corn. What we have to find ways to incentivize people to stay in rural areas and one of those ways is to create jobs that are not related to owning land or working the land. So, what I'd like to do is incentivize companies to move here to use the product of what we grow instead of just shipping off to market, we actually do something with it here. And we, you know, for instance with ethanol, we create ethanol, it creates jobs and then also the by-product of ethanol has helped make us one of the top feeder or the top feeder state in the country because

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we have all that leftover corn. So, that's what I'm trying to do is to find ways to create manufacturing. You're right, the cream of the crop, you know, you're not going to create a manufacturing company that's going to go from zero to a billion dollars in 18 months. And those are few and far behind...between, anyway, but what you will do is you'll have slow, steady, consistent growth if we can find a way. And that's what I'm looking for is to bring manufacturing. [LB398]

SENATOR SCHUMACHER: Widget Manufacturing, I mean, manufacturing of things. Ag doesn't take much...many people and neither probably does ethanol. Those are a high volume production activities with few people. [LB398]

SENATOR HARR: But they still take some, and we need to find ways to bring more manufacturing into the state. You look at the cities that are thriving right now, it's, you know, it's Lexington has done well. Why, because they have a meat packing plant there because they found a way to do manufacturing. It isn't jobs that aren't related to ownership of land. And if we're going to grow the state...because the only way we're going to really lower property...or lower taxes is if we get a greater population here to spread out that fixed cost. And so we have to find a way to create economic development that helps entice new businesses to come here that gives people who come here advantage that other states don't have that doesn't still bankrupt the state. [LB398]

SENATOR SCHUMACHER: Thank you, Senator Harr. [LB398]

SENATOR HARR: Thank you. [LB398]

SENATOR GLOOR: Senator Sullivan. [LB398]

SENATOR SULLIVAN: Thank you, Senator Gloor, and thank you, Senator Harr. And just to clarify, when it comes to TEEOSA, we always fund...fully fund the formula. [LB398]

SENATOR HARR: That's right. [LB398]

SENATOR SULLIVAN: I would...I could certainly agree with you that we have for a variety of reasons, choices, and circumstances have lessened state support for our schools and it's ended up being on the backs of our property owners, so just wanted to clarify that. [LB398]

SENATOR HARR: Yeah, thank you for correcting the record. You're correct. Thank you. [LB398]

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SENATOR GLOOR: Senator Smith. [LB398]

SENATOR SMITH: Thank you, Mr. Chair and Senator Harr. You know, I think it's playing off of what Senator Schumacher was saying that, you know, whether it's a Wall Street or a main street tax policy that we're talking about, I think this has potential being both when we talk about personal property tax. It's not just an incentive for growth but it's also relief for existing businesses, and oftentimes it's the small business that gets left behind. And I believe that the personal property tax is something that would benefit those types of businesses. So, am I correct, this is not only just an incentive bill but a relief bill for existing small business? [LB398]

SENATOR HARR: Thank you. Yes, that is correct, yes. That is the intent. [LB398]

SENATOR SMITH: All right. Thank you. [LB398]

SENATOR HARR: To allow those business that already exist to grow, to give them capital to grow. [LB398]

SENATOR GLOOR: Seeing no further questions, thank you for your introduction. [LB398]

SENATOR HARR: Thank you. [LB398]

SENATOR GLOOR: Can I see a show of hands of those people who plan to testify in any capacity on this bill? Okay. We'll start with proponents. And by the way, pardon me for a second, Senator Sullivan has joined us and Senator Davis is joining us. Go ahead, Ron. [LB398]

RON SEDLACEK: (Exhibit 1) Thank you, Chairman Gloor and members of the Revenue Committee. For the record, my name is Ron Sedlacek, R-o-n S-e-d-l-a-c-e-k, and I'm here on behalf of the Nebraska Chamber of Commerce in support of Senator Harr's legislation today, and been authorized also to enter support testimony on behalf of the Lincoln Chamber of Commerce as well as the Greater Omaha Chamber of Commerce. The Revenue Committee has been hearing and considering a number of bills in an effort to provide some form of property tax relief. And it seems to be the theme...one of the themes of the legislative session and we just want to thank Senator Harr for introducing this concept of...the concept of eliminating an entire category of property taxation. Chairman Gloor also introduced legislation that we support and that provides some relief from tangible personal property taxation in the form of LB259, which was already mentioned. This bill presents yet another alternative that the State Chamber and the other Chambers would support. And this, we believe, would provide, of course, true property tax relief for both agriculture and business operations. At least from what I gather, currently there are

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seven states that have entirely eliminated tangible personal property from taxation. There are four states that have eliminated most tangible personal property taxes. I believe the last state to do so, entirely eliminating the tax, was Ohio in 2009. Certainly there are a number of states that have other options, larger exemptions, different categories of personal property subject to...have more on taxation. And then there are others that have the concept of phasing out over time personal property taxation. Obviously, the issue before us also, though, is how would you fund the effects of repealing the entire category of property taxation and its effect, of course, on local units of government. And to that end, or in this regard, we might take a look at some of the concepts that have been before this committee in looking toward the future. For example, Senator Davis has LB200 in which if the Marketplace Fairness Act ever does get enacted by Congress, there are...well, the proposal that Senator Davis has is to provide for one year in the Property Tax Credit Fund that might be a possible source to look to. And I know in just discussions briefly with the introducer of the legislation, there may be other alternatives to take a look at in this regard. At any rate, we would like to enter our testimony in support of this concept of this legislation. [LB398]

SENATOR GLOOR: Any questions for Mr. Sedlacek? Seeing none, thank you. [LB398]

RON SEDLACEK: Thank you, Senator. [LB398]

SENATOR GLOOR: (Exhibits 2 and 3) Next proponent. And while they're working their way up here, we have a letter from a proponent, Matt Litt, Americans for Prosperity. There's also a letter that you have in front of you from Robert Hallstrom, representing the National Federation of Independent Businesses. [LB398]

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 come before you today in support of LB398 as the lobbyist for Nebraska Farm Bureau Federation. We would like to thank Senator Harr for his interest in reducing property taxes and appreciate what he's trying to do with this legislation. As you know, Farm Bureau takes a very 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 it should be reduced. We are fully aware that many tough decisions you, as senators, must make in weighing the different proposals that come here before you and we support what you do in your efforts. In your discussions if you believe personal property tax reduction should be part of the property tax relief puzzle, we are very supportive. We are very supportive of what Senator Harr's trying to do, what Senator Gloor is trying to do here. There was mention of taking money out of the Property Tax Relief Fund. Farm Bureau probably as an organization wouldn't be very supportive of that, but we are very supportive of the idea of reducing personal property taxes. It would be our hope at this time of

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the year that you could take something like this and maybe in connection with taking ag land from 75 to 65 and get it out and see what we could do on the floor, and next year in the second year of the legislature we could work on income taxes and state aid to education. So, with that I would take any questions that you might have. [LB398]

SENATOR GLOOR: Any questions for Senator Heidemann? I see none. Thank you, Lavon. Next proponent. [LB398]

LORAN SCHMIT: (Exhibit 4) Chairman Gloor and members of the Revenue Committee, my name is Loran Schmit, L-o-r-a-n S-c-h-m-i-t. I also want to thank Senator Harr for introducing LB398. Appreciate the comments made by Ron Sedlacek, Nebraska Chamber of Commerce. I think they're very fitting. I'm testifying here today in support of LB398. LB398 addresses a problem which has long been recognized as a burden upon some individuals and businesses who must own large investments in personal property for the purpose of operating their business. In 1977, the legislature enacted LB518 which removed the tax on farm machinery, business inventories, and livestock over a three-year period. Passage of that bill was a culmination of a number of bills that had been drafted and introduced in prior years in recognition that the personal property tax was a burden upon business industry and agriculture. The legislature also appropriated funds to reimburse local governments for revenue lost. The bill was challenged before the Nebraska Supreme Court. The court ruled that the bill was constitutional, but that the formula to reimburse local governments was only constitutional for the first year. The court demanded that an annual appraisal of revenue lost would be needed to make...each year, so that an accurate return could be made to the local governments. The legislature attempted to correct the problem during the succeeding session. Unfortunately, the majority decided that reimbursement would be made on a per capita basis with no regard for the amount of revenue lost by each local subdivision. That legislative action broke the promise made by the 1977 legislature that local governments would be held harmless from any loss of revenue. And the bill just simply became a property tax reimbursement fund or a reimbursement fund to local governments. As scheduled, business inventories were removed from the tax rolls and remain untaxed today as does livestock. Some time later, farm equipment was placed back on the tax rolls and remains there today. I really believe that without the removal of the tax on livestock, Nebraska would not be the number one cattle feeding state in the nation today. And as you observe the inventories today, probably the automobile dealers and the equipment manufacturers, obviously it would be a big deterrent to those industries if they had to pay personal taxes on that kind of an inventory and it would be a serious disruption to Congress. LB775 and LB312 made provisions to remove turbine aircraft, mainframe computers and food processing equipment from the personal tax rolls if the company met certain requirements for hiring new employees. That has been an incentive to businesses to accept enrollment in Nebraska Advantage Act. The Nebraska Ethanol Industry must make large investments in personal property to operate an ethanol plant. Even though personal property is placed upon a depreciation schedule, the passage

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of LB398 would be a benefit to our industry. Again, as explained by Senator Harr, the ethanol industry has located these plants across the state of Nebraska and communities...it varies in others (inaudible). Their jobs are high paid jobs and have made major contributions to the rural area of Nebraska. We encourage the members of the Revenue Committee to include LB398, as you discuss the bills that have been introduced to correct the serious problem of inequitable taxation which face many Nebraskans. I can sympathize with members of the committee when we as farmers promise to address the issue of education, income tax, in later years because that's like the sign above the bar in David City. It says, free beer tomorrow and tomorrow never really comes and so there's a problem with that being carried out. But we recognize that today there is a very serious problem of property taxation. And after more than 30 years of wrestling with this problem, we think that this calls attention to it. Appreciate Senator Gloor's bill, LB259, also because it addresses the problem. You really must consider the loss to rural communities if you adopt this kind of a bill because the local communities need to have that revenue and there needs to be some made...some lesson made to restore it. Thank you very much. And I'll answer any questions. [LB398]

SENATOR GLOOR: Any questions for Senator Schmit? Senator Davis. [LB398]

SENATOR DAVIS: Thank you, Chairman Gloor. Welcome, Senator Schmit. Tell me how the ethanol industry, the exemptions that are in place for them today with the Advantage Act. So they have some property tax exemption? [LB398]

LORAN SCHMIT: The ethanol industry today, if they comply or chose to take the advantage of LB775 or LB312, can get the same benefits that other businesses are allowed to acquire. Unfortunately, as we know, we do not know how much actual tax advantage a business gets under LB312 or LB775, contrary as I've boasted many times. Benefits from LB536 and LB1137 are a matter of public record and have amounted to three hundred and fifty million dollars plus a few thousand dollars. But those benefits have all ceased, 2012, so there are none of those benefits today that accrue to the ethanol industry. The ethanol industry would benefit if they hired more than 100 employees. They would qualify for the personal property tax exemption as do other business. Unfortunately, that's only about two or three of the ethanol plants who hire that many employees. [LB398]

SENATOR DAVIS: So, right now then, for the vast majority of ethanol plants, they are paying personal property tax on their equipment. [LB398]

LORAN SCHMIT: Yes. Yes. [LB398]

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SENATOR DAVIS: So, what could really happen in a heavily dependent school district on an ethanol plant is that this exemption could be...well, it might be beneficial to the industry, could be detrimental to the school districts so that's why you're saying replacement revenue neutral be put in place. Thank you. [LB398]

LORAN SCHMIT: That's right. Should addressing the...in 1977 the return to local government that first year with the exemption of personal property was calculated to be seventy million dollars. Today, I don't want to have to calculate that number. I think legal counsel can come closer to it than I can. Any other questions? [LB398]

SENATOR GLOOR: I see no further questions. Thank you, Senator Schmit. [LB398]

LORAN SCHMIT: Thank you very much. [LB398]

SENATOR GLOOR: Our next proponent, please. [LB398]

JOHN HANSEN: Mr. Chairman and members of the committee, for the record, my name is John Hansen, J-o-h-n, Hansen, H-a-n-s-e-n. I'm the president of Nebraska Farmers Union. We are in conceptual support of LB398, but I would tell you that within our organization this gets, this placed is somewhat mixed reviews. The view generally is that if certain kinds of other businesses are going to have their means of production exempted that as ag goes, we are a high-risk, low-margin industry, now at best and that we ought to be entitled to the same kinds of tax treatment as our bigger business brothers and sisters get, and so that we ought to be considered. There are those who are at the stage of life where they are landowners and landlords and so they look at this and say, gosh, that means that if you take personal property off, depending on how you make it up, you'll shift more of the cost to property if you're not careful. And the folks who are actively involved in farming say, you made your money, you're on easy street, you make way more money as a landlord than I do as an active producer, and we're the folks who are actually in the game taking the risk and also generating the economic activity at the local level and if anybody ought to be entitled to any kind of relief, it ought to be the folks who are actually doing the work taking the risk and producing the product as opposed to the folks who just adjust cash rent at the end of the process. So, it's an interesting discussion depending on where you sit within the ag community, but I think that the argument that trumps for us is that we should be entitled to the same kind of tax treatment that we already give other kinds of...some other kinds of businesses and it's viewed as a means of production tax. And that...I was reviewing some of our history as we turned a hundred a year ago, I couldn't find any examples in our policy going back as long as I could go that did not support the three fairly equal legs of taxation in our policy, and that we have a lot of examples including recent special orders of business. This support, the need to increase income taxes based on the fact that they're the most accurate indicator of ability to pay.

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And so we're not against coming up with more money in that way after we have done the work, taken the risk, produced the product, and have a profit. With that, I would end my testimony and answer any questions if I could. [LB398]

SENATOR GLOOR: Are there any questions for Mr. Hansen? I see none. Thank you. [LB398]

JOHN HANSEN: Thank you. [LB398]

SENATOR GLOOR: Our next proponent. Good afternoon. [LB398]

JESSICA SMITH: (Exhibit 5) Good afternoon, Chairman Gloor and members of the Revenue Committee. My name is Jessica Smith, J-e-s-s-i-c-a S-m-i-t-h, and I am testifying today on behalf of The Platte Institute. Thank you for the opportunity to speak in support of LB398. It's my first time testifying, so forgive me if I seem a little nervous. [LB398]

SENATOR GLOOR: We're one of the easier committees, so you'll do just fine. [LB398]

JESSICA SMITH: Good to know. (Laughter) LB398 would exempt all tangible personal property from property tax. Currently, Nebraska state law defines tangible personal property to include all personal property possessing a physical existence, excluding money. Tangible personal property also includes trade fixtures such as machinery and equipment used directly in commercial, manufacturing, or processing activities conducted on real property regardless of whether the real property is owned or leased. The Tax Modernization Committee hearings demonstrated that property tax relief is a top priority among Nebraskans, and LB398 is a great opportunity to provide tax relief across the state. According to the Tax Foundation, a nationally recognized tax research organization, there are four well-recognized principles of sound tax policy: simplicity, transparency, economic neutrality, and stability. TPP taxes violate at least three of these principles. First, TPP taxes are far from simplistic. Conflicting assessment ratios, tax rates and depreciation schedules make it difficult for business owners to calculate capital investments. Second, TPP taxes are a business expense often passed on to consumers with a hidden impact. Third, these taxes are not economically neutral. Real property is taxed differently than tangible personal property and can encourage tax avoidance behavior. According to Creighton University Economics Professor Dr. Ernie Goss, Nebraska businesses can no longer afford the high compliance costs, bureaucratic burden and reduction in capital per worker stemming from TPP taxation. These taxes distort the economy by favoring labor over capital and stifle innovation. This runs contrary to our state's history of producing successful business innovators and entrepreneurs. As the committee is aware, 96.6 percent of Nebraska businesses operate with twenty or fewer workers. Small businesses are agents of economic growth and vital to maintaining Nebraska's good life. Other states are increasingly moving away from taxing

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tangible personal property. We must follow suit. Nebraska currently ranks seventeenth in the nation for TPP collections per capita. This is unacceptable if we want to stem the pattern of out-migration and remain competitive with more tax-friendly, neighboring states. Exempting tangible personal property from taxation is good for Nebraska. It reduces economic distortion and improves competitiveness through the tax code. Less tax liability can expand a business's funding base and decrease its capital costs, allowing an entrepreneur to hire, grow, and invest. LB398 would not only encourage employers to stay in Nebraska, but also attract future businesses. Quite simply, TPP taxes are not a good return on Nebraska worker investment. The Platte Institute supports all efforts to provide tangible property tax relief, including LB398 and Chairman Gloor's bill, LB259. Thank you for this opportunity to testify today. Hopefully I wasn't too fast, and I would be happy to answer any questions. [LB398]

SENATOR GLOOR: Any questions for Ms. Smith? I see none. Thank you very much. [LB398]

JESSICA SMITH: Thank you. [LB398]

SENATOR GLOOR: Next proponent. [LB398]

HARVEY SANKEY: Good afternoon, Senator Gloor and members of the Revenue Committee. My name is Harvey Sankey, and I represent the Printing Industry Midwest, specifically here in Nebraska. That's H-a-r-v-e-y S-a-n-k-e-y. We're here in support of LB398. As the representative from Platte Institute said, a lot of small businesses need help. We have 8,500 employees within the state, 390 locations for an average of 22 employees per business. It's a very competitive business. We need tax relief. We need tax relief to keep our businesses in place here. A lot of companies, specifically two within the last five years, have closed their business, the printing business. It's very competitive. We need to have a relief that helps us grow our industry, therefore, hiring new employees, therefore, creating more income into the state by generating taxes from the corporate level or the individual tax level. The industry is very competitive, as I said, and we need as much relief as possible. We lose jobs maybe with a hundred dollars here and a hundred dollars there. Last year we passed the bill that helped us in this industry keep a lot of work here in Nebraska. We exempted postage from sales tax and that has allowed us to keep a lot of businesses open here, hired more employees, and also created a level of competition that we now can compete against the state of Iowa. I don't...I don't have anything further to say other than we need this tax relief. We are a very competitive industry as I said, and also technology in our industry has grown rapidly. We have to compete with other people who are buying new equipment. We're talking about Web presses, large sheet-fed presses. We're talking about bindery equipment folders. This is a big investment we have to stay abreast of because we have to compete against these other printers. So we need that property tax, that personal property tax relief. Thank you. [LB398]

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SENATOR GLOOR: Any questions for Mr. Sankey? I don't see any. Thank you. [LB398]

HARVEY SANKEY: Yeah. [LB398]

SENATOR GLOOR: We'll continue with proponents, if there are any more. Seeing none, we'll move to those in opposition to this bill. [LB398]

LARRY DIX: Senator Gloor, members of the committee, my name is Larry Dix, spelled L-a-r-r-y D-i-x. I'm the executive director of Nebraska Association of County Officials appearing today in opposition to LB398. I doubt it is any surprise to anyone that we are here in opposition. When we reviewed this, it will...we talked a lot about the tax base and that's, of course, the valuation base that we use to be able to assess and apply a tax rate so that we have tax dollars to provide governmental services. This bill would reduce that base by about thirteen billion. Now, it's interesting and, of course, we're getting to an interesting time in the session and many of you know I've sat here through it, a number of these discussions and it's like, okay, we all talk about tax relief, but we've had so many plans up here that it's really tax shift. Today, we're sort of shifting from the folks who have a lot of personal property, but once we lose this thirteen million, on the other side, the school, the NRDs are going to raise that tax rate and so, then folks that have a lot of land they're going to pay it out of that pocket or residential is going to pick up this. So, we're talking about a tax shift here once again. And that's, of course, the Legislature's debate on how do you want that tax policy to look. On our side when we lose thirteen billion dollars worth of valuation, we know we probably have no option other than to raise tax rates to make that up, but then we also run into the scenario where we get some of the counties that are close to our levy limit, and, of course, they have...they don't have anywhere to go. So, we're always concerned when we start to lose the tax base and that's what we are seeing here today. So, Senator Gloor has a bill we know that talks about personal property. At the end of the day it is the Legislature's discussion, debate, on where do they want that tax? Is it...now we're getting within the taxing system more predominantly on residential, agricultural land, less on personal property. It will be a good debate and I'm sure within the committee you'll have a significant amount of debate also on that. But when we look at this we see a little bit of a shift from personal property, obviously, to residential. Obviously some of the people that testify, you may say, yeah, it's good but then when they look and if they have a lot of real estate holding, they may end up actually at the end of the day paying more tax even though they're not paying personal property tax. So, we sort of see that shift going on. So, with that I'll open it up to any questions anybody might...oh, Senator Gloor, since I'm not out of time, one of the other things that I also wanted have the committee consider, when we start talking about possibly replacing the lost taxes to counties, one of the things I would ask the committee to take into consideration because past history has put us into this place, typically we replace the lost tax at a certain point in time, but we have to realize that over the last year, personal property we had an increase of about 3 percent. So, if you cap it at a certain point in time, over the course of a few years the counties are

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going to lose potentially some additional tax base that they would have been receiving, if you sort of get my drift because we're locking it at a point in time and we're not able to take advantage of the 3 percent increase in valuation that would have occurred within personal property. So, with that, I'll open it up to any questions. [LB398]

SENATOR GLOOR: Senator Brasch. [LB398]

SENATOR BRASCH: Thank you, Chairman Gloor, and thank you, Mr. Dix, for your testimony today. And I have been listening to all of the bills. You have indicated we had many come forward with different thoughts and yesterday when we were talking about a potential change to a credit to private schools and when Dr. Breed came up and testified that Nebraska does things a certain way and those 43 other states when it comes to taxes, some of it is sales tax, some of it is back tax, the other tax, and I listened and I thought if I hear the word "shift" one more time (laugh), you're the lucky one. We had the Tax Modernization Committee. We had experts from outside Nebraska come forward and we took on a task of...call it "shift" or call it "correction," call it "tax sharing," but as far as the counties, you know, in relation there, I believe the counties have seen several consecutive years, most counties, probably a majority of funds coming in. And also when we talk about the aging out of farmers, I think there's a little bit of inheritance tax there also to help cushion. You know, we are...are you saying this will break the counties? [LB398]

LARRY DIX: No, I never did say that it would break the counties, but if you will remember earlier this year when we talk about the counties, I think I handed out a sheet that indicated as we have seen growth in revenue and valuation, this last year 89 out of the 93 counties either left their levy alone...there were two that left it alone. Eighty-seven of them lowered the tax rate. They, I mean, they actually lowered the tax rate because they were seeing more revenue which is what we would anticipate all political subdivisions to do. So, when we recognize that, we, as counties, probably hear more about property taxes because the statement goes out...the valuation notice goes out first from the county, so the assessor catches it first, then you get to protest it to the county board so then they catch it second. Then you get a tax statement from the treasurer so they catch it when the people come in, and if you'll note over the course of not only this year but many years, when we talk about tax base, that tax base is schools, NRDs, ESUs, a number of those folks, but we're very, very in tune to that because so much of that happens in the courthouse. And many times you don't see a group of school districts or ESUs coming up here and testify, but at the end of the day there are sent out, thanks, Larry, for protecting our tax base. So, we're very in tune to it. I don't think there's any county that loves the idea of raising property taxes. That's just not there. Those county boards fight every day to keep those property taxes down. [LB398]

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SENATOR BRASCH: And the counties do a good job. I'm not...but I'm saying that when the state of Nebraska has done a study, when we've had testifiers sit here for hours until almost midnight, that we're looking at tax correction, not necessarily shifting but making it a more system where people share in the responsibility of their taxes. And mindful of what the counties...you know, some have greater needs than others, but if one has a broken arm, you just don't put a body cast on, you fix the broken arm. And this is where I hope we can identify, you know, specific gaps and needs rather than a broad blanket, can't do it type of philosophy.
[LB398]

LARRY DIX: Right. You know, Senator Brasch, one of the other things that counties participated in over the summer, of course, you know, we were at all the Tax Modernization hearings. We also went through a process of putting together all of the unfunded mandates, and there were a number of bills introduced in this legislative session that addressed those unfunded mandates. So those go hand in hand. We know there are some areas we need help on and like I said, it's all part of a big, big picture. You can always look at the tax side and I, too, can talk to a number of people that aren't happy about property taxes. We hear that all the time, but there are certain services that we have to provide and we have to have a certain amount of tax dollars in order to provide the services that we are mandated by law to provide. So, it's a pretty good spiral.
[LB398]

SENATOR BRASCH: Very good. Thank you. [LB398]

SENATOR GLOOR: See no other questions. Thank you, Larry. Anyone else in opposition?
Good afternoon. [LB398]

RENEE FRY: (Exhibit 6) 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 OpenSky Policy Institute. Our testimony today will mirror a lot of what you heard from Mr. Dix. It is also very similar to our testimony on bills that would reduce the taxable value of agricultural land. LB398 will significantly reduce the tax base for schools, counties, cities, community colleges and other local governments, and it will essentially shift who pays property taxes in this case from personal property taxes to real property taxpayers, and likely lead to cuts to services or higher property taxes for many Nebraskans. And Senator Brasch, I think it will shift in a way that you don't necessarily anticipate and I will circle back on that when I get through my testimony. Unlike the ag land bills, over 21 percent of the revenue loss will be from personal property used by railroads, telecommunications infrastructure, and oil and natural gas pipelines. Like the ag land valuation bills, LB398 is in part a tax shift bill, and the property tax reductions will largely depend on whether the lost property tax revenue can be shifted to real property taxpayers in the area, and whether there is room under the levy to increase the real property tax

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levy to make up the difference. LB398 will also result in a loss of revenue for local governments. LB398 narrows the tax base by \$13.4 billion, resulting in a \$217.7 million shortfalls for schools in other localities. That would include shortfalls of \$134.3 million for K-12 schools; \$37.5 million for counties; \$27.2 million for municipalities and other miscellaneous districts; \$12.2 million for community colleges; \$4.5 million for NRDs; and \$2 million for ESUs. We estimate that the current law would call for \$67.3 million more in state aid to schools leaving K-12 schools with a shortfall of about \$67 million. Even if the additional state aid is funded, it would not be triggered until the second year after valuations are decreased, and it would only benefit schools that receive equalization aid. Cities, counties, community colleges and other local entities cannot be made whole without raising their property tax levies. If the state does not fund an increase in state aid, levies across the state would have to increase an average of 11.3 cents. At least 56 school districts and three counties would be unable to make themselves whole without overriding their levy limit. If the state does fund the \$67 million increase in state aid, property tax levy rates across the state would have to increase an average of 7.8 cents to avoid service cuts and at least 13 schools districts would be unable to recoup their lost revenue without overriding their levy limit. The most extreme property tax levy increases in the state will likely be in areas of concentrations of oil and gas pipelines, telecommunications infrastructure or railroads. Levies would need to increase most in Kimball, Jefferson, Morrill, Cheyenne, Phelps, Deuel, and Stanton Counties, who would have to increase their real property tax levies between 20 and 30 cents to make up the lost revenue. Senator Brasch, the add...property tax portion of personal property is 36.4 percent. So what I've heard you say in other hearings, you're concerned about the agricultural sector, but actually they would only receive about a third of the total benefit. And, of course, a lot of them will actually see any benefit from the personal property would be lost on the real property side, so actually you could see a lot in the agricultural community who will actually lose revenue. They'll pay more in property taxes under this bill. So with that, thank you for your time and I'd be happy to answer questions. [LB398]

SENATOR GLOOR: Any questions for Ms. Fry? I see no questions. Thank you, Renee. [LB398]

RENEE FRY: Thank you. [LB398]

SENATOR GLOOR: Anyone else in opposition? Anyone in a neutral capacity? Senator Harr, you're recognized to close. [LB398]

SENATOR HARR: Thank you. Chairman Gloor, members of the Revenue Committee, if you ever wondered if the fiscal analyst ever paid attention to us while we testified, the answer is yes. Based on our conversation earlier, during my opening they've come back with a new fiscal note. And it shows because of the change in TEEOSA, that there would be a cost to the state of about \$67 million. So, they do listen. I want to thank everyone who came in and testified. As much as

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anything, I wanted this to be a learning experience to see what we can do on personal property tax. I think it's important that we look at new ways of lowering taxes and incentivizing new economic activity. Like I said, Senator Gloor has a very good bill and I will continue to work with the committee to find a way to incentivize new growth in Nebraska. And with that, I would entertain any questions on LB398. [LB398]

SENATOR GLOOR: Any final questions for the good senator? Seeing none, thank you very much and that will end the hearing on LB398. We will move to LB414. Senator Harr, welcome back. [LB398]

SENATOR HARR: Thank you, Chairman Gloor, members of the Revenue Committee. My name is Burke Harr, H-a-r-r, and I am here on LB414, a tax exemption bill. I think I want to start by explaining 501(3)'s...501(c)'s. A 501(c) organization, also known colloquially as a 501(c), is a tax-exempt nonprofit organization founded in the Internal Revenue Code 26 U.S.C. 501(c). The IRS Code provides for 29 different types of nonprofit organizations that are exempt from federal income taxes. Many states refer to the 501(c) for definitions of organizations exempt from state taxation as well. We are all most familiar with 501(c)(3)'s. However, I'm here to speak about 501(c)(8), a fraternal benefit societies. Fraternal benefit societies are organized...are an organization or volunteer association formed to provide mutual aid, benefit, and insurance for relief from sundry difficulties. There will be individuals coming after me who can better describe these societies. I brought this bill because I have a concern for two organizations: Woodmen of the World and the Knights of Columbus. I'm not affiliated with either group, but I am sympathetic to their causes. Founded in 1890 in what is now the Old Market, Woodmen of the World is a longstanding citizen of the state of Nebraska and city of Omaha. Matter of fact, this June they'll be celebrating their 125th anniversary. The Knights of Columbus is the world's largest Catholic fraternal society organization. What this bill does is what we have under our statute, we have a very broad language that says if you're a nonprofit, you're exempt from property. But then we have more specific language that says that a fraternal order is exempt except for taxes on real estate and office equipment. What we're looking to do is to exempt that tax so that these fraternal orders are treated on the state level the same way they would be or are on the federal level. It's just that simple. With that, I would be willing to entertain any questions you may have. [LB414]

SENATOR GLOOR: I don't see any questions right now, Senator Harr. [LB414]

SENATOR HARR: All right. I'll look forward to...I will stay for closing. Thanks. [LB414]

SENATOR GLOOR: We'll move to proponents for this bill. [LB414]

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JOHN CEDERBERG: (Exhibit 1) Good afternoon, Senator Gloor and members of the committee. I am John Cederberg, J-o-h-n C-e-d-e-r-b-e-r-g. I'm the elected treasurer of the Nebraska Chamber of Commerce and Industry and the vice chair of its taxation council. And I am here this afternoon to express the State Chamber's support for the proposed tax exemption in LB414. The proposed exemption, from our perspective, is consistent with our decades' long economic development emphasis on the insurance industry. We're going to talk a little bit about my written testimony, but this is a leading part of our private sector economy. It is also very consistent with our longstanding practice in Nebraska of aggressively retaining our historic businesses. And finally, perhaps the most important part of my written testimony, which I realize is kind of technical, but I sure do encourage you to read it, is that it is consistent with the exempt purpose of a fraternal benefit society. Insurance has long been an economic development target of Nebraska. On the first and second pages of my written testimony, I summarize a few findings made by Doctors Thompson and Goss in a study done in 2010 on the economic impact of the insurance industry for the Nebraska Federation of Insurance. Interestingly enough, this is an area in which we are a national leader. We are the...we have the third highest concentration of jobs in the insurance industry per capita of any state in the Union. We know who's first--that was Connecticut. And Iowa and Nebraska are virtually tied for second and third. Wisconsin is fourth. The insurance industry tends to cluster, as Doctors Thompson and Goss indicate or discuss in their study; and this cluster has been extraordinarily beneficial to Nebraska. This cluster also pays well. One of the quotes in my written testimony emphasizes that is one of the highest average compensation parts of the private sector. Woodmen of the World, for those of you who are not familiar perhaps with the history of fraternal benefit societies in Nebraska and Nebraska's leadership, the evolution of that concept, I attached a copy of a 2010 article by Jim McKee that was published by the Lincoln Journal Star regarding the founding of fraternal benefit society in Nebraska, literally the second one in existence, and then the growth of Woodmen of the World with Omaha. This has been a longtime corporate citizen of Omaha. It is a key to our insurance cluster in Omaha. And it certainly is consistent with the...with our retention of our historic businesses. But the most important thing that I want to focus on is really pages 3, 4, and 5. As I said, they're a bit technical. But what my objective in those pages is to clarify the confusion that seems to have developed in the public discussion of Woodmen's tax exemption. And that is, what is the nature of the insurance operation? And as you read through there, what you will see is that there are two exempt purposes for beneficial societies. One is providing insurance. The insurance is not a for-profit operation. The income of that insurance business is restricted to its two exempt purposes, that is, accumulating reserves to pay claims and their charitable and educational and related benefit activities. It cannot be diverted to a nonexempt use. If it were to do so, they would lose their tax exemption. And so I think that this is an element, has become an element of the discussion that is subject to have been to a wide matter of misunderstanding. Final point I would make is that there also seems to have been some confusion over how much of an exemption LB414 would actually include. It only includes an exemption of real property that is used for one of the two exempt purposes, that is insurance and the charitable use. Any outside rent and so

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forth of the real property would still be subject to property tax. And if one of the senators would like for me to lead you through those details in the question period, I'd be happy to do so. With that, I would be happy to take any questions. [LB414]

SENATOR GLOOR: Are there questions? Senator Schumacher. [LB414]

SENATOR SCHUMACHER: Thank you, Senator Gloor. Thank you for your testimony today. Just a bit of curiosity, I happened to look up the bill refers to Sections 44-1072 to 44-10,109. And it talks in terms of the fraternal benefit society having a lodge system with ritualistic form of work. Can you explain to me what that means? [LB414]

JOHN CEDERBERG: The concept of the lodge system has always been a bit of a mystery to me how it would creep into the tax code of all places because you find the same thing in the Internal Revenue Code in 501(c)(8). Basically it is, you know, what you would think of in the Knights of Columbus that they have their rituals at the beginning of their meetings. The lodge system basically talks about having local chapters. For instance, I happen to be a lifelong member of the Thrivent Financial for Lutherans, one of the other three large beneficial...fraternal beneficial societies. And, you know, they have a lodge in Lincoln and there's another one I believe in York. You know, it's a social organization. It's very technical, but, yes, these organizations do all have a lodge kind of organization. And, you know, whatever they do for their rituals of Pledge of Allegiance to the Flag and perhaps open with a prayer if you're Knights of Columbus and what have you, that's part of why that...what that is. How it becomes...how it gets enforced from a tax perspective is not one of my specialties. I really don't know. [LB414]

SENATOR SCHUMACHER: Maybe they sang while they worked or something, I'm not sure, but thank you. [LB414]

SENATOR GLOOR: Other questions? I see none right now. Thank you, Mr. Cederberg. We continue with proponents. Good afternoon. [LB414]

LYNN ESPELAND: (Exhibit 2) Good afternoon, Chairman Gloor, members of the Revenue Committee. My name is Lynn Espeland, L-y-n-n E-s-p-e-l-a-n-d. I represent Woodmen of the World Life Insurance Society, and I'm here to testify on behalf of LB414. We thank Senator Harr for introducing this bill. As you've heard, Woodmen is one of Nebraska's oldest companies. We were founded at the Paxton Hotel in Omaha in 1890. We currently have over 700,000 members nationwide. We are licensed to transact business as a fraternal benefit society in all 50 states and the District of Columbia. I'll just give a brief overview. It might reiterate a little bit of what the legal requirements, organizational requirements for fraternal benefit societies are. These are determined by...they're set by federal and state law. Fraternal are nonprofit organizations owned

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by their members. As Senator Schumacher pointed out, an organizational requirement is to have a representational form of government and a system of active lodges or chapters. Fraternal organizations such as Woodmen operate without capital stock and for the benefit of their members. And a significant organizational requirement is that fraternal organizations provide insurance to their members, insurance benefits. These are all set by statute. If we're missing one, we do not qualify as a fraternal and, therefore, would not qualify for exemption. Providing insurance benefits to its members is an organizational requirement and is one of the exempt purposes of a fraternal. Under the insurance laws of all states, including Nebraska, fraternal organizations are deemed to be charitable and benevolent organizations. And under Internal Revenue...in IRC 501, fraternal organizations are exempt from income tax as charitable...other charitable organizations. And this has been since at least 1909. LB414 seeks to create parity for fraternal organizations with other charitable organizations. It seeks to amend 77-202 and 44-1095 to create a property tax exemption for fraternal organizations. There are 32 fraternal organizations licensed to transact business in Nebraska. There are a total currently of 160,000 fraternal members in the state and over 1,200 individuals who are licensed through the Nebraska Department of Insurance to represent fraternal organizations. Many of those reside in your district. As the only domestic fraternal with a landmark home office, Woodmen is probably the most visible fraternal property owner in Nebraska. However, there are other fraternal organizations that own property throughout the state. And with the exception of Douglas County, all of those counties have deemed the fraternal-owned property to be exempt. So there's an agreement that they are charitable and qualify for exemption under state property tax. Here are the Nebraska counties that confirmed tax exemption of fraternal property in 2014: Boone, Buffalo, Butler, Cedar, Colfax, Lancaster, Otoe, Sarpy, and Scotts Bluff. Douglas County is the exception. And within Douglas County, some fraternal property is exempt and has been for some time and some is not. So in our view, the property tax exemption for fraternal organizations has become disparate. And with LB414, we are seeking parity or equal treatment for fraternal property owners within one county, for fraternal property owners amongst various counties in Nebraska, and in parity with other charitable organizations. So we hope you can support passage of LB414. And I appreciate the opportunity to appear before you this afternoon. I'm happy to answer any questions if I can. [LB414]

SENATOR GLOOR: Thank you, Ms. Espeland. Would you run through the numbers again in terms of the number of fraternal organizations in the state and their membership? [LB414]

LYNN ESPELAND: There are 32 fraternal organizations licensed to transact business in Nebraska. And there are currently approximately 160,000 fraternal members in the state. [LB414]

SENATOR GLOOR: Do you have to be a member of Woodmen to sell the insurance products? [LB414]

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LYNN ESPELAND: Yes, sir. [LB414]

SENATOR GLOOR: Okay. But you don't have to be a member to purchase or by purchasing do you become a member of a fraternal? [LB414]

LYNN ESPELAND: You...that is one way to become a member. We also have social members who are unable to purchase insurance, a small group. [LB414]

SENATOR GLOOR: Okay. Senator Brasch, then Senator Davis. [LB414]

SENATOR BRASCH: Thank you, Chairman Gloor, and thank you, Ms. Espeland, correct? [LB414]

LYNN ESPELAND: Yes, that's right. [LB414]

SENATOR BRASCH: I do have a question, but it was sent to me by one of the newspapers in my district over the noonhour. They have a concern. They're saying according to your 2013 annual report that the Woodmen's annual report says that your insurance business made \$1.2 billion, that's with a "b" as in boy, in gross revenue and reported only \$40 million in charitable giving. And they did a calculator to it and they say that's only 3 percent of your insurance business. Can you comment on that? [LB414]

LYNN ESPELAND: Yes, Senator Brasch. As an entity that offers insurance products, we are regulated by the Nebraska Department of Insurance. And we are subject to very strict solvency requirements and reserving requirements. So although we may have certain premium income, all of that income is not available for charitable giving. It has to be set aside because what we do is we give long-term promises. And we've been...we've answered those promises, we've paid on those promises for a very long time. And we intend to continue to do so. So once you set aside the reserves and the financial solvency requirements, what remains, you know, is far less than the numbers that you've mentioned. [LB414]

SENATOR BRASCH: Is there an actual dollar amount that is available, what remains when you say the word "remains" that's not already committed in payouts is what you're saying, correct, for reserve reserved (inaudible)? [LB414]

LYNN ESPELAND: Well, to answer you, I think the tax savings is what is reserved for charitable giving. [LB414]

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SENATOR BRASCH: Very good. I have no other questions. Thank you. [LB414]

SENATOR GLOOR: Senator Davis. [LB414]

SENATOR DAVIS: So...thank you, Chairman Gloor. And thank you for coming, appreciate your testimony. So as I understand it, these other charitable entities like you in other counties have tax exemption. Right? [LB414]

LYNN ESPELAND: Correct. [LB414]

SENATOR DAVIS: And so how did they get that? [LB414]

LYNN ESPELAND: Through their county assessor one would assume, who agrees that they're a charitable organization. [LB414]

SENATOR DAVIS: And your county assessor has not agreed to that, is that correct? [LB414]

LYNN ESPELAND: That's correct, sir. [LB414]

SENATOR DAVIS: So how is it the business of the Legislature to come in and tell your county assessor what we should do? [LB414]

LYNN ESPELAND: I understand your question. Our position is that because it's a disparate situation and like entities are being treated differently, you know, not only among counties but within a county. And, you know, fraternal property is being treated differently as well as fraternal in conjunction or consistent with other charitable organizations that it is appropriate for the Legislature to resolve that disparity. [LB414]

SENATOR DAVIS: So how would you feel if we removed that exemption all across the state? [LB414]

LYNN ESPELAND: Well, that clearly is not what we would...if, you know...we believe that we qualify for exemption, Senator Davis, you know, under the Internal Revenue Code. We believe 44-1095 is very clear, you know, that fraternal are exempt from all taxes. Let me see... [LB414]

SENATOR DAVIS: Have you considered pursuing this in court? [LB414]

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LYNN ESPELAND: Yes, sir. We have pursued the legal administrative proceedings for the property tax denial for Douglas County and so that is in the process. But what we're seeking here with LB414 is exemption in the future. You know, the current legal proceedings are for the current and past years. [LB414]

SENATOR DAVIS: Thank you. [LB414]

SENATOR GLOOR: Let me ask...this may not be accurate anymore, but I had an acquaintance who officed in the Woodmen building, which is a beautiful building and a Nebraska landmark in its own right obviously and I hope it's there for a long time. But they are not, as far as I know, members of the fraternal organization. But as this bill is written, at least as I read it, that land, that property, which I'm sure is leased or rented, would also be exempt unless I'm not reading the bill correctly. [LB414]

LYNN ESPELAND: Senator, we would suggest that the bill read...you would read both statutes together, 44-1095 and 77-202 so that you are correct. We do lease to various tenants within the Woodmen Tower, and so we would certainly not claim an exemption for that space that is not used for the exempt purpose. [LB414]

SENATOR GLOOR: Okay. Thank you. Any other questions? Yes, Senator Sullivan. [LB414]

SENATOR SULLIVAN: Thank you, Senator Gloor, and thank you for your testimony. Regarding some of these inconsistencies, so there's inconsistencies across county lines and within county. Within the county, are there inconsistencies...is there any other large fraternal organization that currently is granted the exemption that's similar to yours? [LB414]

LYNN ESPELAND: Well, I think there was a...within the county, similar fraternal? [LB414]

SENATOR SULLIVAN: Um-hum. [LB414]

LYNN ESPELAND: At one time before Woodmen applied for its property tax exemption before Douglas County, there was another fraternal that had a property in the county that was deemed to be exempt. [LB414]

SENATOR SULLIVAN: Okay. And so have you ever received the exemption? [LB414]

LYNN ESPELAND: No, not on the home office property. [LB414]

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SENATOR SULLIVAN: Okay, all right. Thank you. [LB414]

SENATOR GLOOR: Senator Schumacher. [LB414]

SENATOR SCHUMACHER: Thank you, Senator Gloor. Thank you for your testimony. In order to be a member, do you have to do anything more than buy a policy? [LB414]

LYNN ESPELAND: Well, fraternal...members have a common tie or a common objective. And so that may be ethnic, it may be religious, it may be similar occupation, or maybe a similar objective. And with Woodmen, our members make a...have a shared commitment to country, community, and family. [LB414]

SENATOR SCHUMACHER: Do they have to tithe so much? Do they have to do anything? They just have to share this ether? [LB414]

LYNN ESPELAND: That they share that common tie, common objective. [LB414]

SENATOR SCHUMACHER: So basically if I buy a policy, I'm in. [LB414]

LYNN ESPELAND: You commit to a shared commitment to country, community, family. [LB414]

SENATOR SCHUMACHER: And that shared commitment, do I have to do anything other than be here? [LB414]

LYNN ESPELAND: Well, we, through the fraternal or the charitable activities, there are many activities and opportunities. [LB414]

SENATOR SCHUMACHER: But do I have to do any of them? [LB414]

LYNN ESPELAND: You don't...do you have to? No, of course not. [LB414]

SENATOR SCHUMACHER: Okay. Now how is your organization different from a nonprofit mutual insurance company? [LB414]

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LYNN ESPELAND: I would say it's in the organizational requirements. And so fraternal are nonprofit, owned by members, similar to mutuals, but we also have the representational form of government and the required system of lodges and chapters, and we're required to offer insurance as a part of that. So it's the lodges and the chapters that are really the wonderful difference with fraternal in that we have 1,000 chapters nationwide. And we rely upon them as grass-roots individuals to carry out the charitable activities that we engage in that relate to country, community, and family. [LB414]

SENATOR SCHUMACHER: So it's again breathing this same ether that sets you apart from the mutual insurance company. How it would be...mutual insurance company, they've got to pay property taxes, don't they? [LB414]

LYNN ESPELAND: Yes. [LB414]

SENATOR SCHUMACHER: Okay. And they are nonprofit. Wouldn't this give you an unfair edge against your competitor, the mutual insurance company? [LB414]

LYNN ESPELAND: Well, we've had a federal tax exemption for some time and certain other exemptions. I don't think that has been the case. And I think Congress did a study, research, oh, maybe in 1995 where, in fact, that question was researched. And the conclusion was that, no, fraternal don't use their property tax or their tax exemption status to compete unfairly with other commercial insurers. [LB414]

SENATOR SCHUMACHER: This is a separate question at the state level though. [LB414]

LYNN ESPELAND: No. Because what we do is use the tax exemption dollars for charitable purposes. We don't use the tax exemption dollars to reduce premium or compete otherwise unfairly. I think it's...our rates and premiums and...are very similar to other commercial insurance companies. [LB414]

SENATOR SCHUMACHER: One, I forget what Senator Brasch pointed out the number was, \$1 billion-something in sales or insurance premium and only \$40 million in charitable activity. Charitable activity is fairly small in that context with respect to the premium volume. So... [LB414]

LYNN ESPELAND: Well, again, it's kind of comparing apples and oranges because premium volume has to be set aside to...as a reserve for financial solvency in order...so that we are able to pay our long-term promises, our primarily life insurance. And so comparing what the premium

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income is and using that figure to make an assessment of how much of a charitable, you know, contribution is appropriate I would suggest is not the correct comparison. And I, you know, if I may, we have run into this issue with our appeal or our process of applying for property tax exemption with Douglas County, questioning whether fraternal truly are charitable or whether Woodmen is charitable enough. And we would suggest that that is not an analysis that really is applied to other charitable entities. We are deemed to be a charitable and benevolent organization under Nebraska law 44-1095. We're deemed to be exempt under federal law under 501(c)(8), and that's what differentiates fraternal. [LB414]

SENATOR SCHUMACHER: In your organizational or is it volunteer help that runs the company or are they paid executives just like any other insurance company? [LB414]

LYNN ESPELAND: You know, the employees are salaried. [LB414]

SENATOR SCHUMACHER: Thank you. [LB414]

SENATOR GLOOR: Seeing no further questions, thank you, Ms. Espeland. We continue with proponents. [LB414]

LARRY KING: (Exhibit 3) Good afternoon, everyone. My name is Larry King, that's L-a-r-r-y K-i-n-g, and I am the chairman, president, chief executive officer of Woodmen of the World Life Insurance Society. Mr. Chairman and members of the committee, thank you for this opportunity to speak with you today in support of LB414. I am here because this is a very important issue for me, for the members of Woodmen, and for our board members. Woodmen has called Nebraska home for 125 years. We are a longtime member of Nebraska's business community. We are very proud of that longevity and our Nebraska roots. We are seeking through LB414 equal treatment, nothing more. LB414 seeks to create property tax parity in two ways. First, we support a policy that brings parity for all fraternal, consistent with other large charitable organizations who are designated as not-for-profit charitable organizations under RS 501(c) and who currently and rightfully receive property tax exemptions. Secondly, we are seeking equal treatment for fraternal among different counties within Nebraska. Without this clarification, fraternal will continue to be disparately treated county by county. Again, I want to thank you for your time here today. Lynn did such a great job I knew my green light wouldn't go off. We hope that you agree that LB414 is the right policy solution that will bring equal treatment of fraternal property throughout the state of Nebraska. Thank you. [LB414]

SENATOR GLOOR: Thank you, Mr. King. Are there any questions? Senator Smith. [LB414]

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SENATOR SMITH: Thank you, Mr. Chair. Mr. King, there's been a lot of publicity I suppose about the prospects of Woodmen relocating to another state. Has Woodmen itself sought out incentives with other states to relocate? [LB414]

LARRY KING: No. As Lynn had made the point, we had asked for tax exemption through Douglas County back a year and a half ago or so and that's when it began. And, of course, we were denied about a year ago on that exemption request. And then it seemed that that got attention from Iowa, got attention from other places, and we got calls saying we hear that you've got a problem there. They're not seeing it your way. How about talking to us and seeing if we can help? Well, you know, that led one thing after another and they have come with different proposals and different incentives to get us to relocate. We've kind of held off on that because we have confidence that I believe the Nebraska Legislature will do the right thing here in our opinion, that this is with this legislation. And, you know, we're trying to comfort our 550 people who have jobs at Woodmen of the World naturally. They pay income taxes, sales tax, property tax. We're trying to comfort them that we don't want to move anywhere. We love Nebraska. We love Omaha. We enjoy a great Department of Insurance. We want to stay where we are, but we feel like it is necessary to get the exemptions that we are due. And, you know, the governor of Iowa, he made an appointment with us back in December to come and kind of solidify their offers. And we sort of put him off. And you don't put the governor off. We don't want to upset him or anything else, but we said let's wait and see what Nebraska does before we waste anybody's time talking. We did not initiate. We had no idea to do that from the beginning. [LB414]

SENATOR SMITH: So you're not coming to us with an ultimatum. [LB414]

LARRY KING: No, sir. [LB414]

SENATOR SMITH: You're coming to us and saying, you know, we just... [LB414]

LARRY KING: We want to stay right where we are. We want to make sure those 550 people rest easy that we're not moving them. In fact, we assured them if we go anywhere, it will only be 17 blocks; but we don't want to do that. [LB414]

SENATOR SMITH: All right. Thank you for setting the record straight. [LB414]

LARRY KING: Sure. Glad you asked by the way. [LB414]

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SENATOR GLOOR: Seeing no further questions, sorry...I'm sorry. Senator Schumacher. [LB414]

SENATOR SCHUMACHER: How much money are we dealing with here that you would save if we pass this? [LB414]

LARRY KING: If I've got the figures correct, I think the part of the building that we use for our insurance and fraternal activities the tax annually is around \$800,000. [LB414]

SENATOR SCHUMACHER: And that \$800,000 is going...presently goes into the schools and goes into all the other things that property tax pay for. [LB414]

LARRY KING: All the other things that it would go for across the country. [LB414]

SENATOR SCHUMACHER: Isn't that kind of consistent with your purpose of being good local citizens and contributing to the poor people who have got to pay their house taxes and all of those things? [LB414]

LARRY KING: Did you say it was inconsistent? [LB414]

SENATOR SCHUMACHER: Isn't it consistent? [LB414]

LARRY KING: Isn't it consistent, I think so, yes. [LB414]

SENATOR SCHUMACHER: So we're just helping you be charitable. [LB414]

LARRY KING: We appreciate that. [LB414]

SENATOR SCHUMACHER: Thank you. [LB414]

LARRY KING: Yes, sir. [LB414]

SENATOR GLOOR: Senator Davis. [LB414]

SENATOR DAVIS: What you're asking for is consistency, and I asked this question earlier... [LB414]

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LARRY KING: Yes. [LB414]

SENATOR DAVIS: ...so why would it not make more sense for the Legislature to just pass a rule that said we're not going to have any exemptions for this class of category in other counties? Would that make you satisfied? [LB414]

LARRY KING: No. I think you would miss out on a tremendous amount of good that is done throughout the counties of Nebraska and Douglas County. You know, I think that would be a harsh thing to do. There's so much good. I've been with Woodmen 41 years and I can tell you, you know, we could spend a lot of time talking about the good that we do, not only here but throughout the country, in disaster times and helping those who are less fortunate, food bank, homeless shelters. We have partners throughout Douglas County, Nebraska, that we help on a daily basis. We wouldn't want that to go away. [LB414]

SENATOR DAVIS: And I'm sure you do. Lots of other corporations, other entities do the same thing. [LB414]

LARRY KING: Absolutely. [LB414]

SENATOR DAVIS: Thank you. [LB414]

SENATOR GLOOR: Senator Sullivan. [LB414]

SENATOR SULLIVAN: Thank you, Senator Gloor. And thank you for your testimony. [LB414]

LARRY KING: Yes, ma'am. [LB414]

SENATOR SULLIVAN: I'm a little confused. So you've never been granted the exemption. [LB414]

LARRY KING: Correct. [LB414]

SENATOR SULLIVAN: Why did this come to a head just recently? [LB414]

LARRY KING: You know, of course, as I said I've been with Woodmen 41 years. You might be able to tell I'm not from around here, but I have been here nine years as a resident of Nebraska. And, you know, I've been president about two and a half years. We have always known that we

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should have tax exemption. We've had them other places throughout the country. And we know our fellow fraternal have other exemptions throughout the country. But, you know, I told the Governor last week, I said, you know, I said I've been here...we started this thing about a year and a half ago. Now I know why my predecessors didn't tackle the issue. There's an awful lot of attention, a lot of distraction, and a whole lot of stress connected with it. Now I understand why they didn't tackle the issue. But maybe it was because margins were greater or the tax bill wasn't as high or whatever the reason. But, you know, I'm on two nonprofit boards in Omaha now. And I know what they do and I know the good they do, but I also know they enjoy tax exemption on their administrative buildings, different things. So I see a lot of disparity. And I know we meet the same five criteria for a charitable organization that they do and so we should have that same tax exemption. [LB414]

SENATOR SULLIVAN: Thank you. [LB414]

LARRY KING: Thank you. [LB414]

SENATOR GLOOR: Seeing no other questions, thank you. [LB414]

LARRY KING: Thank you. [LB414]

SENATOR GLOOR: Continue with proponents. [LB414]

STEVE SELINE: Good afternoon, Chairman Gloor and members of the committee. My name is Steve Seline and that's S-t-e-v-e S-e-l-i-n-e, and I'm a member of the executive committee of the Greater Omaha Chamber of Commerce and the immediate past chairman of the board. On behalf of the Chamber, I'm here today in support of LB414. We thank Senator Harr for bringing the proposal to the committee for your consideration. Fraternal organizations have long been recognized by the Internal Revenue Service as tax-exempt entities, and with that comes rigorous requirements that define the organizations as being within that definition. At the same time, fraternal organizations have long been recognized by Nebraska law as charitable benevolent institutions. And with that comes requirements including operating for one or more social, intellectual, educational, charitable, benevolent, moral, fraternal, patriotic, or religious purposes. State law also provides that adherence to such requirements comes with exemptions from all and every state, county, district, municipal, and school tax other than taxes on real estate and office equipment. During debate on the 1985 reauthorization of the statute, it was stated by a senator in reference to state taxes: What Section 24 does is create a blanket exemption from taxation. Notwithstanding the intentions of the Legislature, fraternal organizations have been in some cases required to pay local taxes, sales taxes, and local property taxes. As to property taxes, treatment of these organizations varies from county to county as we discussed earlier today. We

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believe LB414 clarifies the law so that it gives the fraternal organizations and the counties the ability to ascertain which organizations should be taxed and what activities mark the fraternal organizations. It seems that when we have a confusion of law such as this, especially when the Legislature has been authorized...has twice authorized such status and exemptions we should lean in the direction of entities such as the one that we're discussing today who have called Nebraska home for 125 years, employ a large number of people in the state, and give back to the community in all the ways that you've heard about this afternoon. From a Chamber perspective, this goes to economic development and employer attraction for Nebraska. Certainly, it also goes to employer retention. In the long run, we should be seeking not only to retain but attract headquarters of fraternal organizations. We need to be a welcoming place for those who provide services, whether to their members in the day-to-day operations or people served through charitable contributions and employees and members volunteering their time and labors to helping those in need. With that, we ask that you give all due consideration to this legislation. And I thank you for your time and consideration, and I'm open for questions. [LB414]

SENATOR GLOOR: Are there any questions for Mr. Seline? I don't see any. Thank you. [LB414]

STEVE SELINE: Thank you, sir. [LB414]

SENATOR GLOOR: Continue with proponents. [LB414]

CASSIE SEAGREN: Good afternoon, Senator Gloor and members of the Revenue Committee. My name is Cassie, C-a-s-s-i-e, Seagren, S-e-a-g-r-e-n, and I'm the deputy chief of staff for economic development for the city of Omaha. The city of Omaha supports LB414. In Omaha, we strive to have a positive business climate. We want to make sure that all of our businesses have a clear regulatory environment in which to operate, and we believe that LB414 provides this. I'd be happy to answer any questions you might have. [LB414]

SENATOR GLOOR: Thank you, Ms. Seagren. I see no questions. Thank you. Are there any more proponents? We'll then turn to those in opposition to this bill. Anyone in a neutral capacity? [LB414]

BRUCE RAMGE: (Exhibits 4, 5) Good afternoon, Chairman Gloor and members of the Revenue Committee. My name is Bruce Ramge, spelled B-r-u-c-e R-a-m-g-e, and I am the Director of Insurance. I'm here this afternoon in a neutral capacity regarding LB414. My primary purpose for appearing today is to provide the committee with information regarding fraternal benefit societies and how they are different from more traditional insurance companies, as well as to answer questions. Though many insurance companies are nonprofit entities existing for the

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benefit of their members, fraternal benefit societies are unique organizations. Typical nonprofit insurers are mutual insurance companies, which are companies owned by the policyholders. Profits paid by the mutual companies are returned to policyholders by dividends or reduced premiums. Mutual companies pay a full array of taxes and are regulated the same as a for-profit stock insurance company. Fraternal benefit societies are different. They exist not just to offer financial products but also operate for one or more social, intellectual, educational, charitable, benevolent, moral, fraternal, patriotic, or religious purpose. Fraternal must have a lodge system with a representative form of governance. Regulatory requirements are set out separately in the insurance code and unless specifically mentioned are exempt from other insurance laws. Nearly 100 years ago, states began to regulate fraternal. Early model laws were written to ensure actuarially sound products and to provide written membership bylaws. The models early on recognized the unique benevolent and charitable nature of fraternal and exempted from taxation. One of the unique aspects of fraternal benefit societies is that membership is geared towards individuals with a common affinity as opposed to more traditional companies that market to all. Thrivent Financial and Knights of Columbus are two large fraternal with a religious purpose. The Mennonite Mutual Aid Association, Sons of Norway, and the Croatian Fraternal Union of America are some examples of lesser known fraternal societies. In Nebraska, 32 fraternal have a certificate of authority from the Nebraska Department of Insurance and one, Woodmen of the World, is domiciled and headquartered in our state. Because of the organization, purpose, and membership-driven nature of fraternal, they are not typically in direct competition with more traditional types of insurers. The law also provides some limitations on the types of products they can offer. For these reasons, while the law provides a framework for a fraternal to convert to a mutual company, there is really no risk of a large mutual company such as Mutual of Omaha or Blue Cross Blue Shield of Nebraska switching to a fraternal benefit society structure. I very much appreciate the opportunity to appear before the committee to provide information regarding fraternal benefit societies. And I'd be happy to answer any questions of the committee. Thank you. [LB414]

SENATOR GLOOR: Thank you, Director Ramge. Have you seen any of these fraternal organizations...well, should I say has the department seen any of these fraternal organizations literally become defunct in recent years? [LB414]

BRUCE RAMGE: You know, over time I think some of them have written less business and may have dropped off that way. But I've never really witnessed any, you know, insolvency or company becoming defunct. As you can tell with the list I provided, some do very little business here in the state. [LB414]

SENATOR GLOOR: But they, on the other hand, may do a considerable amount of business... [LB414]

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BRUCE RAMGE: Else... [LB414]

SENATOR GLOOR: ...in another part of the country just based upon the ethnicity or religious orientation of that area. [LB414]

BRUCE RAMGE: Correct. Yes. [LB414]

SENATOR GLOOR: Okay. Senator Brasch. [LB414]

SENATOR BRASCH: Thank you, Chairman Gloor. And thank you for your testimony here today, Mr. Ramage (phonetically)? [LB414]

BRUCE RAMGE: Ramjee (phonetically). [LB414]

SENATOR BRASCH: Rame. And you're the Director of Insurance. [LB414]

BRUCE RAMGE: Yes. [LB414]

SENATOR BRASCH: Okay. In all of the insurance industry when you look at their annual reports or year-end numbers, do they all have...I'm thinking everyone has to pay out at the end for their policies. [LB414]

BRUCE RAMGE: Yes. [LB414]

SENATOR BRASCH: And with this one we're looking at 3 percent of their holdings are for charitable purposes and then the other are for payouts. Does that sound proportional to you? Is that... [LB414]

BRUCE RAMGE: In terms of the ratio of the amount of charitable work, the Department of Insurance really doesn't regulate that. Our emphasis is on the solvency of the company in relationship to their insurance products so that, for example, a life insurance policy or an annuity that may be in place for a large number of years, we want to make certain that the company has reserves to meet those obligations when they come due. [LB414]

SENATOR BRASCH: So about 97 percent or more of a reserve for pay due is typical proportionately in a company, would you say that is? [LB414]

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BRUCE RAMGE: It probably is. And a lot of it...a company's results will vary year by year. They, like other companies, will have years when there's better returns on their investments or will have years where maybe more benefits will be paid out because of, you know... [LB414]

SENATOR BRASCH: Claims or...okay. [LB414]

BRUCE RAMGE: ...higher costs...claims, yes. [LB414]

SENATOR BRASCH: All right, very good. That was just my question... [LB414]

BRUCE RAMGE: Thank you. [LB414]

SENATOR BRASCH: ...if the proportionate was industrywide. [LB414]

BRUCE RAMGE: Okay, yes. [LB414]

SENATOR BRASCH: Thank you. I have no other questions. [LB414]

BRUCE RAMGE: You're welcome. [LB414]

SENATOR GLOOR: Senator Sullivan. [LB414]

SENATOR SULLIVAN: Thank you, Senator Gloor. Thank you, Mr. Ramge. Of the 32 fraternal societies that you mentioned that you grant a certificate of authority to... [LB414]

BRUCE RAMGE: Yes. [LB414]

SENATOR SULLIVAN: ...that certificate is...has nothing to do with the fact that they are or are not a fraternal. It just has to do with insurance product. Is that correct? [LB414]

BRUCE RAMGE: That's correct. The Nebraska law that's established for the framework for fraternal benefit societies is based off of a National Association of Insurance Commissioners model. And so most other states will have nearly identical framework, not only for that law but for regulatory purposes as well. [LB414]

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SENATOR SULLIVAN: And then do you or are you aware of the remaining fraternal, do any of them have their own buildings? [LB414]

BRUCE RAMGE: Because they are not domiciled here, I'm not familiar with their operations. I would assume that some of the larger ones would have either branches here or halls, you know, like society halls or whatever, which would kind of fall under that definition of a lodge system, maybe a branch office or a hall, a camp, for example, might be located here. But because we're not the domestic insurer, we would not really be out there looking at those particular facilities. [LB414]

SENATOR SULLIVAN: And to that end, you wouldn't know whether they were tax exempt or not. [LB414]

BRUCE RAMGE: That's correct. [LB414]

SENATOR SULLIVAN: Okay, thank you. [LB414]

BRUCE RAMGE: Yeah, thank you. [LB414]

SENATOR GLOOR: Senator Schumacher. [LB414]

SENATOR SCHUMACHER: Thank you, Senator Gloor. Thank you for your testimony here today. [LB414]

BRUCE RAMGE: You're welcome. [LB414]

SENATOR SCHUMACHER: We've heard testimony today that basically said that anybody can become a member by buying a policy and living in the same atmosphere. And yet there seems to be this stress that there is a fundamental difference between the fraternal society and a mutual insurance company that arises out of this "camaraderieship," this spirit, this sing as you work and sing as you saw or whatever you do. [LB414]

BRUCE RAMGE: Sure, sure. [LB414]

SENATOR SCHUMACHER: And so who polices that? Who makes sure that an organization is truly that kind of organization rather than just an insurance company with a charitable side? [LB414]

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BRUCE RAMGE: That is where like the bylaws would come into play. We'd have to make certain that the bylaws were structured so that the organization does engage in those type of activities and has those types of facilities. Earlier you asked about does a member have to participate in these organizations. And I think the answer was good, but I think the other flip side of that is oftentimes members have benefits as well that they are then entitled to. That might be outside of just the insurance product. They maybe have access to some of the social functions, the social halls, the camaraderie, you know, fraternal kinship, whatever, but. So I'm not a member of this organization so I don't know what all of those are. And we would not get into an examination of their lodge-type activities. We're there to make sure they're financially sound to meet those promises that they have in their insurance policies. [LB414]

SENATOR SCHUMACHER: Is the salaries of Woodmen executives disclosed to the department and are those confidential? [LB414]

BRUCE RAMGE: Those are disclosed to the department as well as every other company, and currently those are open to the public. [LB414]

SENATOR SCHUMACHER: Thank you. [LB414]

BRUCE RAMGE: You're welcome. [LB414]

SENATOR GLOOR: Senator Davis. [LB414]

SENATOR DAVIS: Thank you, Senator Gloor. I've got a couple questions. Deposit type contracts, what are those? [LB414]

BRUCE RAMGE: Sure. Those are what...think of them like a checking account. It would be a retained benefit. Let's say, for example, that a member, a family member passed away and had life insurance benefits. Well, the beneficiaries may elect to keep those on deposit at the company and take them out partially, almost using like a bank draft because they don't have a need for all of the funds all at once. [LB414]

SENATOR DAVIS: Thank you, sir. And then we've got three different entities here that use the word "Woodmen." [LB414]

BRUCE RAMGE: Yes. [LB414]

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SENATOR DAVIS: Which particular one...are these all the same or is one of these the one we're talking about? [LB414]

BRUCE RAMGE: One of these is the one we're talking about. I think it would be the fifth one down. [LB414]

SENATOR DAVIS: And the other ones are located in another state somewhere else? [LB414]

BRUCE RAMGE: The third one down is in Colorado. And off the top of my head, about the ninth one down...I'm not certain. It may be an affiliate and I would almost defer that back to some of the representatives here from Woodmen of the World if I may. [LB414]

SENATOR DAVIS: Maybe Senator Harr can find that out before he closes. [LB414]

BRUCE RAMGE: Sure, sure. [LB414]

SENATOR DAVIS: Thank you, sir. [LB414]

BRUCE RAMGE: Yes. [LB414]

SENATOR GLOOR: Any other questions? Thank you, Director Ramge. [LB414]

BRUCE RAMGE: Thank you. [LB414]

SENATOR GLOOR: Anyone else in a neutral capacity? [LB414]

LARRY DIX: Senator Gloor, members of the committee, my name is Larry Dix, spelled L-a-r-r-y D-i-x. I'm executive director of Nebraska Association of County Officials appearing today in a neutral capacity on LB414, really testifying to bring forth information that we found, not so much as it relates to insurance, but as it relates to taxes because there appears to be some comparisons with the property in Douglas County. And we had had some conversations about Knights of Columbus and some of the facilities located around the state. We know that there are a number of Knights of Columbus organizations in many of our counties. We did hear back from 12 counties that had Knights of Columbus halls in those. And just to correct what was said previously, those are not always exempt. Okay? Of those, in two of the counties, a portion of those halls were exempt. There were some areas in that Knights of Columbus hall that were reported to us that had a bar area where they would sell alcohol. And in those areas, then the

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counties would estimate the amount of square footage that that area took up. And then that did become taxable. That was placed on the tax roll. And so that's pretty much what we found. Most of the other times the Knights of Columbus where their meeting place was actually in a church which would obviously be an exempt property. One of the things that I would call to your attention, when we're typically talking about Knights of Columbus, most of those the assessors are handling those under Section 77-202. And when we're talking about the piece of property in Douglas County, I think we're talking about under Section 44. One of the differences that I want the committee to be aware of, there are two things. If you fall under the 77-202, each and every year you have to come back to the county and make a request for the exemption. Under 44 and under this bill as we see here on page 2, line 5, if I were to read that, once it is exempt, there is never any coming back. It's just exempt. So I don't know if that's something the committee wants to look at, but it would be handled a little bit differently than the ones that fall under the Section 77. And then last statement that I'll make is as with anything else, we always...we know it's a tax policy of the Legislature, but we always want to bring forth that we take careful consideration when we're exempting property that has a potential to remove value from a tax base. So with that, I'll answer any questions anyone would have. [LB414]

SENATOR SCHUMACHER: Any questions for Mr. Dix? Senator Sullivan. [LB414]

SENATOR SULLIVAN: Thank you, Senator Schumacher. And thank you, Mr. Dix. In your research, have you found out with regard to any other fraternal organizations if this is handled differently or consistently? [LB414]

LARRY DIX: We...you know, before this bill went out and we didn't send it out too many days in advance here, but we did hear from a couple of other counties that said they had no Knights of Columbus but maybe they had a Masonic Lodge. Those were treated, those were exempt. And I don't know enough about that particular to know if there's an insurance component of the Masonic Lodge or not. But that's about the only other thing that we heard. Primarily the responses were Knights of Columbus. [LB414]

SENATOR SULLIVAN: And in that case with the Masonic Lodge, like the Knights they have to come back every year to the county. [LB414]

LARRY DIX: Yeah, yeah. [LB414]

SENATOR SULLIVAN: Thank you. [LB414]

SENATOR SCHUMACHER: Any other questions for Mr. Dix? Thank you very much. [LB414]

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LARRY DIX: Thank you. [LB414]

SENATOR SCHUMACHER: Any other neutral testimony? Seeing none, Senator Harr to close. [LB414]

SENATOR HARR: Thank you, Mr. Vice Chair. Well, it looks like this has consent calendar written all over it. No? Thank you. This handout I wanted to clarify a little bit. Modern Woodmen of America is not affiliated with Woodmen. Funny story: Mr. Root who founded Woodmen of the World, originally worked there, had a disagreement, left, founded Woodmen, but just made it Woodmen of the World so. This bill provides clarification and certainty. You've heard that, you know, we have an issue from counties to counties and even within a county. And so what we're trying to do is provide clarity and certainty for over 550 employees we have here that Woodmen employs in Nebraska. There are other entities as well, but Woodmen of the World itself, 550. This would affect, let's be honest, Douglas County and the city of Omaha. And the city of Omaha came in and said, heck yes we want this. We want to keep these 550 employees. And Douglas County, Douglas County didn't object. They didn't come in. Their board decided to take no action on this. But that tells you they understand, again, keeping 550 employees is more important than some...a little bit of property tax. They're not asking for the whole building. The building is 30 stories. They're not asking for that. They fill about 35 floors or 35 percent of that building. And they're asking for, and justly I think, that 35 percent of their building that they use to further their charitable cause. With that, I would ask for your vote and support on this bill and would entertain any questions you may have. [LB414]

SENATOR GLOOR: Are there any final questions for Senator Harr? Senator Davis. [LB414]

SENATOR DAVIS: Thank you, sir. Senator Harr, you said Douglas County did not object, but took no action. That doesn't really say the same thing. Can you elaborate on that a little more? [LB414]

SENATOR HARR: Well, I mean you can interpret it however you want. It's kind of like when we say neutral testimony. There's no neutral testimony. You're either neutral positive or neutral negative. All I can say is they're neutral. And that means they didn't object. And, look... [LB414]

SENATOR DAVIS: It seems to me though if they... [LB414]

SENATOR HARR: ...if I had a choice between giving a tax deduction of, you know, probably around \$600,000 for Douglas County or losing, you know, all those jobs to another state, I'd probably say this is a good deal for the state of Nebraska and for Douglas County. [LB414]

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SENATOR DAVIS: I guess my question is we've heard that they've asked Douglas County to do this before and Douglas County has not done so. [LB414]

SENATOR HARR: No, no. That's incorrect. And I'm glad you brought that up. So what they did, we write the laws, right? And so what Douglas County did, Douglas County Attorney's Office did was they looked at the statute and they said, well, based on the statute we don't think we can...it's a little ambiguous, but we don't think we can give you this tax deduction. Now Woodmen read the same and said, we think it does give it to us because what we have is a general statute that says all nonprofits are exempt from property. And then what this...then you'll see the bill says except for fraternal orders, all is exempt except for property and office equipment or, yeah, real estate and office equipment. So what this bill does is provide clarity. It's not that Douglas County said no. It said our interpretation of the law as it's currently written. And what we're trying to do is to take the law on the state level and make it consistent with the federal level. On the federal level, they don't tax these type of properties. We're saying...or we don't tax this type of fraternal order. And we're doing the same thing here saying we don't want to tax these type of fraternal orders on the state level. Treat them similarly on the state as we do the federal level. [LB414]

SENATOR DAVIS: Isn't it true though the federal government doesn't have assessed property taxes? This is a property tax issue, isn't it? [LB414]

SENATOR HARR: Well, they don't have a property tax but they do have an income tax. And so what I'm saying is tax to taxes. Yeah, there are three different types of taxes, but yeah. [LB414]

SENATOR DAVIS: Thank you. [LB414]

SENATOR GLOOR: Senator Schumacher. [LB414]

SENATOR SCHUMACHER: Thank you, Senator Gloor. With regard to that, Senator Harr, do we treat them basically the same for income tax purposes? [LB414]

SENATOR HARR: As the federal level? [LB414]

SENATOR SCHUMACHER: Yes. [LB414]

SENATOR HARR: I believe so, yes. [LB414]

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SENATOR SCHUMACHER: Okay. So as Senator Davis kind of pointed out, we're talking apples and oranges there. On the property tax level, the federal government doesn't have a property tax. And so we've got nobody to be equal with. [LB414]

SENATOR HARR: Well, I would stand by my statement that taxes are taxes. They still come out of your pocket. It doesn't matter if it's sales, income, or property. It still hurts the same. [LB414]

SENATOR SCHUMACHER: Thank you, Senator Harr. [LB414]

SENATOR GLOOR: Seeing no further questions, thank you, Senator Harr. [LB414]

SENATOR HARR: Thank you. [LB414]

SENATOR GLOOR: And that will end the hearing on LB414. We'll now move to LB424. Senator Davis. [LB414]

SENATOR DAVIS: Chairman Gloor and members of the Revenue Committee, I am Al Davis, D-a-v-i-s, and I represent the 43rd Legislative District. I'm here today to introduce LB424 which expands the tax evaluation policy that currently applies to wind energy generation facilities to include facilities that generate electricity by means of other renewable sources. Specifically, the bill adds solar, biomass, or landfill gas to the current language regarding taxation of property belonging to wind energy generation facilities. LB424 also exempts depreciable, tangible, personal property used in the generation of energy by solar, biomass, or landfill gas from property tax if the facility has a nameplate capacity of 100 kilowatts or more. In 2010, the Legislature passed LB1048 which created the nameplate capacity tax. Previously, nearly all equipment in a windfarm above the ground was classified in tax as personal property with a very short class life. This meant a large spike in revenue and expense very early in the project which quickly decreased to almost nothing in terms of personal property. This caused budgeting challenges for both the host county and the developer. The nameplate capacity tax was calculated by UNL economist equal to personal property tax revenue that a project would pay, and thus, that a county would receive over the average life of a project. That is \$3,518 per megawatt per year. If a project lasts longer than average, the county receives a windfall. Windfarms still pay real property tax on the foundation, roads, and buildings. LB1048 effectively would replace the personal property tax on a windfarm with a nameplate capacity tax to smooth out the revenue and expense streams. The wind industry and the county supported this change. Back then, the focus was on wind. While LB1048 included solar, biomass, and landfill gas as eligible fuel sources, along with wind, the nameplate capacity tax portion of the bill did not. We now have at least three solar developers interested in Nebraska. However, under current law they face the same personal property tax spike issues that troubled the wind industry, and the host counties

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would also face the same issue of inconsistent revenue from year to year. LB424 simply extends the nameplate capacity tax to energy generation facilities that utilize approved renewable fuel sources other than wind. We limited the bill to facilities with a nameplate capacity of 100 kilowatts or more so that this applies primarily to commercial projects rather than the small single use facilities like personal residences and farm projects. Thank you very much. I would be happy to answer any questions. [LB424]

SENATOR GLOOR: Thank you, Senator Davis. Are there any questions? Senator Schumacher. [LB424]

SENATOR SCHUMACHER: Thank you, Senator Gloor. Are there any other renewable energy sources that should be added here besides solar, biomass, and landfill? Are we leaving somebody out so we don't have to do this again? [LB424]

SENATOR DAVIS: I suppose the only thing I can think of would be if someone was going to build a dam somewhere and to generate electricity through that, and it's a private industry, rather the state or an NRD, building one. That's the only one I could think of. [LB424]

SENATOR SCHUMACHER: Thank you, Senator. [LB424]

SENATOR GLOOR: Senator Smith. [LB424]

SENATOR SMITH: I think where Senator Schumacher was going is, would you add transmutation of elements to this list? [LB424]

SENATOR DAVIS: I will have to defer that question to someone who is a little sharper than I am, Senators. [LB424]

SENATOR SMITH: Thank you. [LB424]

SENATOR GLOOR: How about nuclear fusion? [LB424]

SENATOR DAVIS: I think that's what Senator Smith is referring to. [LB424]

SENATOR GLOOR: Is that it, nuclear fission? [LB424]

SENATOR SMITH: Yes. [LB424]

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SENATOR GLOOR: Is that...yeah, okay. Trying to remember which is which anymore, but I know the technological breakthrough, I think, is nuclear fusion. Okay. Any other questions?
Senator Harr. [LB424]

SENATOR HARR: Along those lines, why is Geothermal left out? [LB424]

SENATOR DAVIS: I guess because there's no project right now that's going...that's sort of a commercial project that's like that. [LB424]

SENATOR HARR: Okay. [LB424]

SENATOR DAVIS: It probably wouldn't make sense to include something like that and there are parts of the state where there is, you know, at least some predictions that might be a realistic solution. [LB424]

SENATOR HARR: Okay. Thank you. [LB424]

SENATOR GLOOR: Okay. Thank you, Senator Davis. [LB424]

SENATOR DAVIS: Thank you. [LB424]

SENATOR GLOOR: Can I see a show of hands of those who are interested in testifying in any capacity on this bill? Okay. Why don't you move over here, if you would please, so we can keep track of folks. Not many. We'll start with proponents of the bill. [LB424]

DAVID LEVY: Chairman Gloor and members of the committee, good afternoon. David Levy, D-a-v-i-d L-e-v-y appearing in support of LB424 as registered lobbyist for Infigen Energy. Infigen is a developer, owner, and operator of renewable energy generation with interest in 24 windfarms in Australia and the United States. They are also active in solar energy development with recent successful developments in California and New Mexico. Their development portfolio includes projects located in ten states, including Nebraska, Minnesota, and Colorado. They're currently developing, or are in late-stage development of a project in...a solar project in central Nebraska that they hope to have on-line in 2016. Infigen supports LB424 because the nameplate capacity tax relieves the timing burden of personal property tax on the developer of a capital intensive project with a long payback. I think Senator Davis otherwise described this very well. I think because of the way this works with the facility being subject to personal property tax in the statute, then exempted from it, and then subject to the nameplate capacity tax, it may look like more. But ultimately, this is really a definitional change and really I would characterize it as a

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cleanup bill. I think it's important. Senator Davis mentioned the counties. We're very involved with the drafting of this originally and we're supportive of it because it also, the flat revenue stream was beneficial to the counties as opposed to the spike, and then sort of dwindling personal property tax, because of the nature of these facilities, more of the taxes, personal property tax even than real property tax. So this is a very significant portion of the facility. I'll address also the questions about the fuel sources and why the list we have. The nameplate capacity tax came about in 2010 in conjunction with LB1048 which set up a regulatory process at the Power Review Board for projects. And that was a heavily negotiated bill. On behalf of the wind development industry, we worked with the public power groups and the Power Review Board and others a lot. And in that process, the group of fuel sources that was derived, or that came out of that, was agreed upon was when solar, biomass, and landfill gas. Why then we limited at that time the nameplate capacity tax to wind only, I don't know. We didn't know then what we know now. Why LB424 is limited to those sources is that we were trying to keep it consistent with LB1048 and that agreed-upon list of fuel sources that everybody felt were fair to characterize and treat in this way as renewable fuel sources. So with that, I would urge the committee respectfully to advance LB424, and be happy to answer any questions you might have. [LB424]

SENATOR GLOOR: Any questions for Mr. Levy? Senator Sullivan. [LB424]

SENATOR SULLIVAN: Thank you, Senator Gloor. Since you mentioned central Nebraska, where is this entity located and how close are they to be up and running? [LB424]

DAVID LEVY: Sure. That project is in the city of Kearney and they are currently actively working on leasing the land and working on an agreement with a Nebraska public power entity that would be the purchaser of that facility as well. As you may have also seen in the paper, Lincoln Electric System has entered into an agreement with a company called HelioSage to build a five megawatt solar project, just kind of west of Lincoln along the Interstate. [LB424]

SENATOR SULLIVAN: Thank you. [LB424]

DAVID LEVY: Sure. [LB424]

SENATOR GLOOR: Seeing no further questions, thank you. [LB424]

DAVID LEVY: Thank you. [LB424]

SENATOR GLOOR: Mr. Hansen. [LB424]

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JOHN HANSEN: Mr. Chairman, members of the committee, good afternoon. For the record, my name is John Hansen, J-o-h-n, Hansen, H-a-n-s-e-n. I'm the president of Nebraska Farmers Union. And Senator Davis and David Levy have done a good job of describing the process as I remember it. And so, I'm always encouraged when my recollection of how these things went squares with others, and as to why it is that we didn't at the time extend this treatment to these other renewables, I have no idea. It seems to me it was an oversight. But in terms of the existing list, it was heavily negotiated so the treatment, the nameplate capacity is a good trade-off. It's a good trade-off for the county. It's a really good trade-off also for the developer, and so I think we're just extending, to my mind, the same kind of treatment to other renewables and it was more...was not a...I do not remember a conscious decision to not include that. But I would say that I do think that we are at the place now where we do need to include them because I think that we have the opportunity and the potential for those kinds of renewables to move forward. So there is a timeliness to this, and I think that we're...I think based on what LES has done in the project that Mr. Levy has described, I think that we need to do this. And so with that, I wish the committee well and would urge you to think favorably of LB424, and I'll end my testimony and answer any questions if I could. [LB424]

SENATOR GLOOR: Senator Schumacher. [LB424]

SENATOR SCHUMACHER: Thank you, Senator Gloor, and thank you for your testimony. Well, if you had a generator that burned ethanol, would that be a renewable generator? [LB424]

JOHN HANSEN: It would be close. [LB424]

SENATOR SCHUMACHER: Thank you. [LB424]

SENATOR GLOOR: Senator Smith. [LB424]

SENATOR SMITH: Thank you, Mr. Chair. So continuing with what Senator Schumacher was commenting on there, what about other fuel sources that would...I understand probably what your intent is to promote renewable generation, but we had this discussion last year on the floor of the Legislature when we talked about transmutation of elements, and there are types of generation that are low emissions that can create a more reliable, consistent source of generation that makes...that creates more business sense for some of these projects. Now, I do understand that in Nebraska we do have some limitations on private ownership of some of those generation facilities, but, I mean, would you be equally supportive of moving down that path? [LB424]

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JOHN HANSEN: Well, relative to your question and also Senator Schumacher's question, if you're going to break into new territory, then I think you have to have a new negotiation with all the different parties involved in order to try to get to that place where we're making sure where everybody is comfortable and knows what's going on and we're moving forward in a good fashion. And the list of things that are covered in this bill are things that have already been considered, already negotiated, and it is fair to say that LB1048 was a very heavily-negotiated package. And so, I'm always a bit shy at adding things in that weren't a part of the consideration and so you've got a lot of different interests involved. And so I think that if we're going to add new things, I think you have to kind of go back to the...to it. [LB424]

SENATOR SMITH: I'm not asking necessarily at this point to add something in, I'm just trying to gauge your level of support and on...I know, if it promotes the renewable cause and we include additional forms of energy, is that something you're open to? [LB424]

JOHN HANSEN: Anything that's renewable, we're open to talking about and thinking about. We're just...we haven't had that discussion in our shop or I don't have policy to go by. [LB424]

SENATOR SMITH: All right. Thank you. [LB424]

JOHN HANSEN: We're a grass-roots organization and we have policy on how much gravel we should have on county roads and we have policy that goes on for 46 pages, but we don't have policy on everything and we don't have policy on that. [LB424]

SENATOR SMITH: Thank you. [LB424]

SENATOR GLOOR: Thank you, Mr. Hansen. [LB424]

JOHN HANSEN: Thank you. [LB424]

SENATOR GLOOR: Any other proponents? Anyone in opposition to this bill? Anyone in a neutral capacity? Senator Davis, you're recognized to close. Senator Davis waives. And that will end the hearing on LB424. We'll now move to LB476. [LB424]

SENATOR DAVIS: (Exhibit 1) Good afternoon, Senator Gloor and members of the Revenue Committee. I am Senator Al Davis, D-a-v-i-s, and I represent the 43rd Legislative District and I thought I'd bring a controversial bill to you for your last bill today, just for fun. But I'm here today to introduce LB476, a bill which requires county assessors to compile a listing of exempt property within a county and submit this list to the property tax administrator who will compile

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the data and file a report annually listing the exempt property and the associated value. During Ruth Sorensen's confirmation hearing in January, I asked Ms. Sorensen about details on exempt property. Ms. Sorensen replied that the state did not have a listing of exempt property and that this was done at the local level only. Each community and each county have a wide variety of exempt property within their borders and the amount and variety of that property does have an impact on the services that are required by the county and the city. Dawes County, for example, has a significant amount of property which is managed by the National Forest Service and taxing entities that are stressed because so much of the property in the county is owned by the federal government and pays no taxes. Dawes County must maintain roads excessing these forest parcels and provide fire assistance to those parcels when called upon to do so, so their budgets are affected by the heavy presence of the federal government in the county. Thomas County is another example of a county with a large amount of federal property in the national forest at Halsey. Lincoln also has a significant amount of property exemption taxation but in need of services provided by the city and by Lancaster County in all the state-owned property and the university. I believe it is important for the state legislature to have an understanding of exactly how much property is exempt in the state of Nebraska since services must be provided to those properties. I heard concerns that the bill as drafted was not workable as it would have placed an undue burden on the county assessors who would be required to invest a significant amount of time assessing property which does not generate revenue for the local taxing entities. I agree 100 percent with that observation. Therefore, I offer AM652 which is intended to reduce their workload to a much more manageable level. Under the amendment, unimproved property such as federally owned rangeland would be assessed at the market value of comparable land in the county. For properties containing improvements, the value of the improvement would be determined by requesting the insurable value of the property from the owner when the exemption is applied for. Thank you, and I'd be happy to answer any questions. [LB476]

SENATOR GLOOR: Are there any questions for Senator Davis right now? Senator Scheer. [LB476]

SENATOR SCHEER: Thank you, Senator Davis. So the county assessor doesn't have to do a valuation assessment if a church, whatever, might have a parcel and it's got a home that they may be renting out, if they perceive the value to be \$80,000, they'd tell the assessor \$80,000, so it's set at \$80,000 then or...? [LB476]

SENATOR DAVIS: Well, the way I would envision that happening and not...and so state property and federal property doesn't have to file one of those forms every year that we've heard about in the last session, but the way I would envision that is when the form is filed with the county assessor, and I guess that's under 77 statute, on that form the assessor would ask for the insurable value of the property, what was being carried on that property, that figure would go in and we would use that value. So to just to try to reduce the workload, these buildings, a lot of

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them have never been assessed or, you know, valuated at all. So it would be extremely cumbersome and great cost for assessors to do that with no significant benefit. I just want to make it simple and easy, but I want the county to have a...the state to have a grasp of what's out there. [LB476]

SENATOR SCHEER: The only thing, I guess, I would say is that if you're doing it by an insured value, that's different than a market value. In a lot of rural areas, substantially different. So I mean, I...in some cases, you might be truly overinflating the value of the property by doing it that way. [LB476]

SENATOR DAVIS: I think I recognize what you're talking about, buildings that might be...have an insurable value of \$100,000 in a small community that might only be worth \$25,000. It's the only way that I can see to really get at it, some kind of a grasp of it. [LB476]

SENATOR SCHEER: Sure. Okay. Thank you. Thank you, Senator Gloor. [LB476]

SENATOR GLOOR: Senator Sullivan. [LB476]

SENATOR SULLIVAN: Thank you, Senator Gloor. Thank you, Senator Davis. This information is available now publicly, I presume. [LB476]

SENATOR DAVIS: On tax exempt properties? [LB476]

SENATOR SULLIVAN: Uh-huh. [LB476]

SENATOR DAVIS: The county is required to publish a list of the exempt properties, just with the names or the addresses or the legal description of them. There's no value associated with them because they've never been appraised before. [LB476]

SENATOR SULLIVAN: And that's available at the county level. [LB476]

SENATOR DAVIS: That's right. [LB476]

SENATOR SULLIVAN: It's nothing that they send to the state. And then you want those two things to happen, you want to add value to it, and you want that information to be sent to the state. [LB476]

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SENATOR DAVIS: Correct. [LB476]

SENATOR SULLIVAN: What value do you think that information would be to us as policymakers? [LB476]

SENATOR DAVIS: Well, I think in specific counties that I mentioned, Lancaster County, for example, with all the state property here, obviously does drive up the cost of local government. County services, city services need to be provided and so we may look at costs here that maybe look lopsided on the local level, but really are not because of the amount of property that's here. Same thing in counties like Dawes County. Thomas County which have a lot of federally owned property skews the dynamics there. So, I think it just would be helpful for us to have the list and see what's out there. [LB476]

SENATOR SULLIVAN: Thank you. [LB476]

SENATOR GLOOR: Senator Davis, is this amendment a relatively new amendment? In other words, have you vetted this yet with some of the people who...the counties...? [LB476]

SENATOR DAVIS: I think Larry Dix has seen the amendment. We just got it, though, just in the last day, so. It hasn't been circulated. [LB476]

SENATOR GLOOR: But you've been talking about it. [LB476]

SENATOR DAVIS: Yes, we have been taking about it. I think they're probably going to still testify in opposition. I understand that. [LB476]

SENATOR GLOOR: Okay. Yes, Senator Brasch. [LB476]

SENATOR BRASCH: Thank you, Chairman Gloor, and thank you, Senator Davis. I thought my question was very similar to Senator Scheer's and Sullivan's, but I was not clear. So, all property would need to be registered now with the Department of Revenue with the property tax. [LB476]

SENATOR DAVIS: What would happen with everything that's owned by a...like a fraternal organization, like we heard about now, that is already on file with the county assessor. In your county, for example, she'll have a list of those properties, there's just no value associated with those. So, you know, I thought it would be helpful if the state...if the county assessor sent this to

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the state and there was a property tax report put out so we'd have...this committee would have a breakdown of exempt properties in each county. [LB476]

SENATOR BRASCH: For the purpose...helpful in what sense? Where will it...I guess I don't understand for the purpose of future taxation, is that where it's leading, or is it...? [LB476]

SENATOR DAVIS: Well, as I said to Senator Sullivan, some counties are going to look as though their local costs are out of whack when compared to others. I think it will give us a tool in which to evaluate how efficient local government is. [LB476]

SENATOR BRASCH: Okay. I have no other questions. Thank you. [LB476]

SENATOR GLOOR: You know some of that property is vacant and is still owned. Others have college campuses on it or state roads department on it with individuals who owns, pays property taxes and sales taxes...I mean, I'm trying to determine knowing what that number is, you still don't know whether, I mean, Grand Island would be happy to have the State Capitol with all the jobs that go along with it to plug into the space that's being vacated by the Veterans home. And it...there's no way to really know with that raw number whether you're happy with that number or it's space that you still have to plow in front of and maybe provide limited services to. That's what I'm trying to get my head around. That's what I'm trying to get my head around. [LB476]

SENATOR BRASCH: Chairman, when you're done. [LB476]

SENATOR GLOOR: Sure. Go ahead, Senator Brasch. [LB476]

SENATOR BRASCH: Thank you, Chairman. And then just thinking on your last few words, it will help state government to determine how efficient local government is? Is that what you...did I hear you say that? [LB476]

SENATOR DAVIS: I think it will give us a grasp for that. So, I'll use another example. We have a lot of jobs in Lincoln that are tied to the university system which is a great thing and I have no problem with that. A lot of students attend Lincoln public schools. Lincoln doesn't have that tax base that would be there if that was a private business. You know, whether that's a good thing or not, I think it's important for us to know what the property is worth. [LB476]

SENATOR BRASCH: And then I guess my question is, when I address constituents I always stress that they must be the ones to be watchful of their local government because there is a separation of government. There is local and they vote for those individuals, whether it's the

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school board or county supervisors and that, their local government is not on the watch of state government, that there is a separation there. And I'm just wondering if that is graying that line saying that your state government is now watching your local government. [LB476]

SENATOR DAVIS: Well, that's not what I'm trying to do. [LB476]

SENATOR BRASCH: That's what...I want to make sure. It's what it sounded like and so just to clarify why... [LB476]

SENATOR DAVIS: No, that's not what I'm...but let's take the last bill that we heard, Senator Harr's bill. [LB476]

SENATOR BRASCH: Okay. [LB476]

SENATOR DAVIS: So, we heard that there were...that these entities were being treated differently in different counties, but without...if we had this particular piece of information, we could go to that and say, oh, yeah, that's true, I see that over here in Scotts Bluff County this is this way. We just don't know today. [LB476]

SENATOR BRASCH: And they are bringing it to our attention saying that it's not being treated equally. [LB476]

SENATOR DAVIS: Right. [LB476]

SENATOR BRASCH: And so that's where we go on a case by case rather than having so much information that it seems like more cost to government and bigger government. There will be a whole new division dedicated to crunching those numbers, perhaps. That's my concern. [LB476]

SENATOR DAVIS: And, you know, I'm guessing maybe you're going to hear from people that say the same things, Senator Brasch. [LB476]

SENATOR BRASCH: Okay. All right. All right. Well, thank you for bringing this forward. [LB476]

SENATOR DAVIS: Thank you. [LB476]

SENATOR GLOOR: Senator Schumacher. [LB476]

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SENATOR SCHUMACHER: Thank you, Senator Gloor. Senator Davis, as I got it, what you're really just trying to do is get a general idea, very, very rough in nature of where it's at and how much it might be worth. [LB476]

SENATOR DAVIS: Right. [LB476]

SENATOR SCHUMACHER: And that may or may not be good for some graduate student writing a dissertation or a Revenue Committee wanting to have a question and answer at some point in the future. [LB476]

SENATOR DAVIS: That's true. That's correct. [LB476]

SENATOR SCHUMACHER: Thank you. [LB476]

SENATOR GLOOR: Senator Scheer. [LB476]

SENATOR SCHEER: Sorry. Truly and then the only benefit is to the state if we're having the county do that. How do...we've all talked about unfunded mandates to both communities or cities or schools as this is set up, it truly would be an unfunded mandate under a part. Granted, I realize you're trying to minimize it, but is there some way that the state can participate in...if this is only for the state's benefit trying to provide the counties some type of resources to do that with? [LB476]

SENATOR DAVIS: I didn't ask for it. You know, it certainly could be a part of the picture. It depends on whether the committee thinks this is something that we need help with it then. You know, I...honestly, I think you'd be shocked if you knew how much exempt property was out there. And so one other tool that I think would be helpful would be the database would be accessible for the counties and they could go on and say, I see that in such and such county this particular type of property is exempt and we're not treating it that way. We need to reevaluate our statutes or, oh, my gosh, nobody else in the whole state is exempting this and we are, maybe we better reevaluate that because, you know, I've been through the process of asking for exemptions from county commissioners. And I think it's kind of vague, the definitions about how...who qualifies and who doesn't. So I think probably among different counties there are different interpretations of the statute. [LB476]

SENATOR SCHEER: I know, but this isn't anything they wanted to do. This is something that we're wanting to do, so. [LB476]

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SENATOR DAVIS: That's true. [LB476]

SENATOR SCHEER: I mean, I don't think...I don't envision them thinking of this in the next six months and say why we should all start doing this and so from that advantage point, it is coming from us, you shall do type deals. Just wondered if there's somebody. Thank you. Thank you, Senator Gloor. [LB476]

SENATOR GLOOR: (Exhibit 1) Seeing no other questions right now, thank you, Senator Davis. We'll...actually before we start with proponents, forgot to read into the record on LB424. We had a proponent, Rich Lombardi with the Wind Coalition. And with that, back to LB476. Proponents for LB476. [LB476]

RENEE FRY: (Exhibit 2) Hello again. 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 OpenSky Policy Institute and we're here in support of LB476. Much like the Department of Revenue reports on our state tax expenditures, we support the collection and reporting of property tax expenditures as would be required in LB476. As our local governments become more and more reliant on property taxes to fund critical services, transparency of property tax exemptions will provide citizens and policymakers with important information to assess the impact of those lost property tax dollars. Senator Brasch, I would say to your question, currently, there's not an easy or complete way to accurately assess the value of exempt properties in Nebraska. To start, you must either find where each county publishes the list of exempt properties or request a list from the county assessor's office. That list may or may not include a parcel ID for each property. If not, you must search by address and use the description of the guide to make sure you find the correct property. Some counties have Web sites that make the search process very simple while others are much more difficult to navigate and search. Once you find the property, it may or may not have a value assigned to it. If no value is given, you can see if there is a sales history or if it used to be on the tax rolls. If not, you must model the price based on location, age, size and type of property from those listings that do include prices. However, the accuracy of these numbers is questionable without the expertise of professional appraisers. While we understand that some properties may be difficult or expensive for the counties to assess, we believe that requiring the counties to report as much as they can would be better than nothing. In this regard, it would be similar to the tax expenditure reports compiled by the Department of Revenue, which in some cases list that an estimate is not available. Furthermore, LB476 is in line with recent efforts by the legislature to improve transparency around tax expenditures, including bills passed in 2013 that require hearings on the tax expenditure and tax incentive reports; LB989 passed in 2014, introduced by Senator Schumacher, which requires enhanced reporting of sales tax expenditures; and LR444 which led to LB538, that if passed this session, would provide for assessment of our state's major tax incentive programs. Just a couple more points that were raised earlier. I would say that many

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properties do already include values now, but not all do. Senator Sullivan asked about the policy benefit and I just wrote down a few thoughts. One, we could see how much value is being exempted, and it would give the legislature our tool to look at to see if those policy reasons to exempt that property still exist since, you know, once these exemptions go on the books, they've been put in place for many, many years, our economy changes and our priorities change. That would give you a method to determine whether we're still exempting the right properties. Finally, we could look to see if exemptions are being applied equally across the state just as you heard in the Woodmen bill. To Senator Scheer's point, I think you could give the department of property assessment and taxation a role in this if the concern is about the unfunded mandates for the counties. And with that, thank you for your time. I'd be happy to answer any questions. [LB476]

SENATOR GLOOR: I don't see any questions. Thank you. [LB476]

RENEE FRY: Thank you. [LB476]

SENATOR GLOOR: Any other proponents? We'll move to those in opposition. [LB476]

MICHAEL GOODWILLIE: Good afternoon, Senator Gloor and members of the committee. My name is Michael Goodwillie, G-o-o-d-w-i-l-l-i-e. I am employed by and represent the Douglas County Assessor/Register of Deeds Office. Initially, my boss, Diane Battiatto meant to come down here but she's had an issue and has sent me in her stead. Her regrets to the members of the committee. I am here to testify in opposition to LB476 which would require assessors to provide a report of estimated market value of all real property that is exempt from property tax in their county by December 1 of each year. Now, our opposition to the bill is not about the idea itself. We don't think it's a terrible idea, but as currently written, we think the time and expense of the bill is a big problem for our office, and I imagine some of the other assessment offices too. I would start with the proposition that there is no specific effective date of the law meaning that the first report would be due on December 1, 2015. This provides a fairly short window to value all of the properties implicated by the bill by that date. I think given the other tasks that are mandated for our office and our current staffing, it would be impossible to comply at least by that first year. Currently, by way of background, there's no requirement for what LB476 proposes. The Department of Revenue in its regulations dealing with property records requires that each property record must contain the current year's value and one or more prior year's history of the final assessed value of the land and improvements, except for real property that receives a property tax exemption. So, let's start with the proposition that LB476 is adding a requirement that does not currently exist to the duties of an assessment office. Most assessment offices try to allocate their resources to those things that are mandated by law. If you have to choose how you allocate your fine item appraisal staff, you would allocate it first to the inspection and valuation of taxable property because those things are statutorily required rather

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than requiring them to inspect and value property that is unlikely to be taxed. And I think that's especially true when there's no statutory or regulatory requirement for valuing such property. So if you go to the Web site of an assessment office and you look up the local church or the local public school, you know you're not going to see a value because currently it's not required. LB476 as currently written with its current time line would certainly add to the workload of the assessment offices leading up to December 1, 2015. As currently written, it applies to each parcel of real property in the county that is exempt from property tax and this includes permissively exempt properties like churches or private schools or charities, the ones that have to file an application every year, but because it says every exempt property, I think it also includes governmental properties such as courthouses, police stations, sheriff departments, and public schools. And Senator Davis also talked about property owned by the federal government. Now, for Douglas County let me give you some numbers. There are close to 16,600 governmental properties that are exempt. You know, these are everything from the UNO campus to the courthouse to all the police stations and so forth. There are also another 1,500 or so permissively exempt properties. This is in addition to the 200,000-plus taxable parcels that we are already charged with value. Now admittedly, some of the government properties are small right of way parcels for streets or the Interstate highway. There are about 6,700 parcels of less than one-tenth of an acre that are owned by political subdivisions in our county. And they may have nominal value but our GIS staff, our mapping staff informs us that the mapping of parcels, just even get value on them, would take some significant time as well. We would certainly end up looking to add to appraisal staff to comply with the bill. And these are not necessarily easy properties to value. They would include the city-county building, St. Mark or Mary's Church, and perhaps the new UNO hockey arena. In closing, I understand the desire to get a handle on the worth in property value and taxes of the property exemptions provided by the constitution and statutes. And I guess our opposition is in terms of the time line. If the legislature is determined to go in this direction, then perhaps provide some lead time. I know back in 2011, LB384 which required preliminary meetings and then face to face hearings at the County Board of Equalization, it set an effective...it passed in 2011. It set an effective date of January 1, 2014 providing a significant window so assessment offices could ramp up for that process. We would not be opposed to something like that here. Again, I don't think it's the concept that's the heartburn, it's the volume and the timing. With that, I would be happy to answer any questions that you have. [LB476]

SENATOR GLOOR: Mr. Goodwillie, had you had a chance to see the amendment? [LB476]

MICHAEL GOODWILLIE: We have not. [LB476]

SENATOR GLOOR: Okay. [LB476]

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MICHAEL GOODWILLIE: We have not. You know, I guess my initial question just from the brief description I heard, I don't know how many government entities carry insurance on their properties. Not to look for a fly in the ointment, but the only folks that are applying for exemptions with us are the permissives. You know, churches, private schools, charities and so forth. Yes, it would probably be easy enough to add a line for the insured value, although if it's insurance plus contents, I'm not sure where that gets you in terms of the market value of the property. But for the governmentals, currently there's no filing mechanism. [LB476]

SENATOR GLOOR: Senator Schumacher. [LB476]

SENATOR SCHUMACHER: Thank you, Senator Gloor. Thank you for your testimony. You use the word "permissives." [LB476]

MICHAEL GOODWILLIE: Yes. [LB476]

SENATOR SCHUMACHER: That would be nongovernmental things that are exempt, correct? [LB476]

MICHAEL GOODWILLIE: Sure. [LB476]

SENATOR SCHUMACHER: Okay. When you maintain your database like you have on your Web site, is there a particular field in there that distinguishes the permissives from the government entities? [LB476]

MICHAEL GOODWILLIE: I don't know that we have it organized to search that way, but if you went out to the page listing for the local church or the local private school, for example, somewhere in the legal description it would say, exempt, and then for the governmentals it would say, exempt, governmental. [LB476]

SENATOR SCHUMACHER: Okay. So there is...the computer, at least the database knows that. [LB476]

MICHAEL GOODWILLIE: We can certainly generate...we can certainly generate the numbers. We can certainly generate the properties. It's the value piece that's going to take the time. [LB476]

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SENATOR SCHUMACHER: Then let me ask you this, whether or not the...may you lay out your computer labeling, whether or not the computer can tell the surrounding properties? [LB476]

MICHAEL GOODWILLIE: I know that on our Web site...I think everybody organizes their Web sites a little bit differently, but I know for example on our Web site, we have a section where you can click on something called "subdivision sales search," so you can find properties in that subdivision with similar characteristics that have recently sold. It may be possible to arrange something like that. I don't know that it would help you necessarily with the value of that specific property. [LB476]

SENATOR SCHUMACHER: Right. But I mean it almost sounds like, and from my experience in fooling with some of the Web sites in rural counties is, the computer knows what property is exempt. The computer or the database also knows surrounding properties or nearby properties and it also knows the value of the nearby properties. [LB476]

MICHAEL GOODWILLIE: Okay. [LB476]

SENATOR SCHUMACHER: So, if we're just trying to grasp some general idea of what something in that area might be worth, just for a rough, rough first pass over analysis, a proper query should be able to give us the average or a guesstimate of the value of the property. [LB476]

MICHAEL GOODWILLIE: Well, you'd have to make some assumptions and let me give you an example. Just up the block from where the new UNO hockey arena is going up is the veterinarian to which we take our pets. It's a small, kind of mom and pop business, right? If I pull up the value of that small mom and pop business and then maybe the auto tire shop that's farther down the block, I'm not sure what that tells me about the value of the UNO hockey arena. [LB476]

SENATOR SCHUMACHER: But that may be...there may be more properties that would give a general indication of value. Again, I... [LB476]

MICHAEL GOODWILLIE: Senator, if you had like versus like, I mean, I'm trying to think of some other examples. St. Margaret Mary's Church sits right across the street from a residential neighborhood and you could get the value of the houses in that residential neighborhood, I'm not sure how valuable that would be in telling you what that church would be, how you would value that church. I mean you could do it. I think in some cases it might help you, but in many others it would not. [LB476]

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SENATOR SCHUMACHER: Okay. Thank you. [LB476]

SENATOR GLOOR: Senator Harr. [LB476]

SENATOR HARR: Thank you. Thanks for coming down. So, let me ask you this. There would be a fiscal note attached to this bill for you guys, correct? For the county, you say you'd have to hire more assessors? [LB476]

MICHAEL GOODWILLIE: I think we would. We haven't done one. [LB476]

SENATOR HARR: Okay. [LB476]

MICHAEL GOODWILLIE: I haven't seen one. Yeah, I'm not sure what the number would be. I know for example that in our commercial department, our commercial appraisers are assigned anywhere from 2,000 to 2,400 properties each to value. [LB476]

SENATOR HARR: Okay. [LB476]

MICHAEL GOODWILLIE: We've got about 17,000 properties that would fall under the bill. I don't want to say they'd all be in equal difficulty or equal measuring in valuing, but it's a considerable number and I think it would... [LB476]

SENATOR HARR: Maybe add more time. [LB476]

MICHAEL GOODWILLIE: Well, potentially. If the lead time was provided, that might lessen it. [LB476]

SENATOR HARR: Okay. And as I understand it, there would be no new revenue based on this. [LB476]

MICHAEL GOODWILLIE: I think it would probably require the legislature to say something further about continuing certain kinds of exemptions or changing the rules about governmental property or some sort of further action would probably be needed, sure. [LB476]

SENATOR HARR: So, if we have no new revenue and additional costs, this seems like it would actually raise property taxes for the taxpayers. [LB476]

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MICHAEL GOODWILLIE: Well, I don't know if it would or wouldn't, but certainly our staff is paid out of property tax dollars. [LB476]

SENATOR HARR: Okay. And I guess in my world, in a world of got to have and want to have, this would seem to fit more in the want to have to know what these properties are worth. Is that a fair assessment since we don't use it for any governmental purpose? [LB476]

MICHAEL GOODWILLIE: Well, I...you know, I think that would be a question that each of the individual members of the legislature would have to answer for themselves. We would prepare the report. We'd provide it to the property tax administrator. How they disseminate it, I assume it would go to members of the legislature. So, you know, if you wanted to consider it for some sort of policy determination about exemptions, I guess you could. But I guess that's all in the eye of the beholder too. [LB476]

SENATOR HARR: Okay. Thank you. [LB476]

SENATOR GLOOR: Seeing no further questions. Thank you, Mr. Goodwillie. [LB476]

MICHAEL GOODWILLIE: Thank you. [LB476]

SENATOR GLOOR: Continue with opponents. [LB476]

LARRY DIX: Good afternoon, Senator Gloor and members of the Revenue Committee. My name is Larry Dix, spelled L-a-r-r-y D-i-x. I'm executive director of the Nebraska Association of County Officials appearing today in opposition to LB476. And certainly, I want to thank Senator Davis for sending the amendment. I looked at it late last night and I think I replied back, thank you, but we still couldn't support what's going on in the amendment. But I'm going to try to talk a little bit about the amendment since Senator Davis sent that out. Certainly, when we go through their Section 1 on or before each county shall compile this list and we certainly can compile the list of exempt properties. One of the things...then as we go on down we talk about the federal government and then when I get to Section 11, for all other parcels the county assessor shall turn the estimated market value of such parcel by using the insurable value of such parcel. Well, those are a little bit conflicting. I mean, either it's the insured value or it is the estimated market value that we look at through IAAO standards. And if we're trying to get this information to a state level to the policy folks, to all of you folks that are making the decision, a suggestion would be is to have the assessors send in the list of all of the exempt properties to the property tax administrator and have them issue a letter to each property taxpayer and say, tell me your insured value. Because right now, I can see this happening. The county assessor says over here, okay,

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show me the...please send me the insured value, and somebody says, well, I'm not going to...there isn't much teeth in this, what if I don't. There's no penalty if I don't, so if I don't, I don't. If I do, I do. Before long this list is going to be incomplete. The other thing that we run into when you get into exempt properties, a lot of these are not easily assessed. This isn't a 24x40 house with a basement and a one-car attached garage. We're talking...on this bill we're talking about Memorial Stadium. We're talking about the State Capitol. We're talking about some significant challenges to come up with a market value on these properties. And, you know, at some point in time, if that's the information that you want to have those decisions, then fine, but I would contend there would be a significant fiscal impact to some counties. You may have some counties that may have just the small little white church and that may be all there is in the counties. But if you get into any colleges that have college campuses, there's a significant amount of university property. There's a significant amount of...on these college campuses, these buildings that...these are not the typical buildings that you establish value on. It isn't like we're going to go to the market and find sales, comparable sales on these properties. So, it's going to be very, very difficult. Senator Schumacher, to your question. While Douglas County may code their database that shows which ones are government exempt and which ones are exempt, I would contend that not all the counties do that. Most of the counties have a flag in the database that says, this property is exempt. And so, we wouldn't be able to do that query in a number of the databases in the state because it would just show the exempt properties. In regards to the properties around that, you would have to make sure the counties have a GIS system, geographical information system, which most counties do. I would give you that. There are not too many anymore that don't, but I also would contend when you get into the rural areas and you look...and you take a snapshot of a church and you look all the way around it, and I think this was said, you may just have houses all the way around it. You're not going to find another church. And there really doesn't seem to be a lot of value for one county to know how they value churches in another county or...because they're exempt. I mean, they just don't. Property record cards, when you look at those property record cards, that property record card probably has an address. It probably has a picture on it, but there's no dimensions of the church in most of those instances. And it will say, exempt, value zero. And it's been that way...it's been that way since I've been back in the assessment, so it's 40-plus years. That's all the information we ever carried because there was no requirement to do anything else. So, anyway with that significant cost, we would sort of cry unfunded mandate, but I'd be happy to answer any questions that anybody would have. [LB476]

SENATOR GLOOR: Thank you. Senator Schumacher. [LB476]

SENATOR SCHUMACHER: Thank you, Senator Gloor. Thank you for your testimony, Mr. Dix. Would it be very expensive to get a query on the GIS system for those counties that have it, which is most of them? Where is the...well, list out the exempt property in the name of the owner. Then if somebody wanted to spend the time on it at the state level, they could obviously

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go see if it said exempt. Owner, Village of Monroe, they'd figure that probably is government, or if they were flag that they already separated out government, eliminate the government ones from the list, we can't really do much about government. It doesn't tell us very much. How much Memorial Stadium or the Capitol is worth, but some of the other properties might run it. Would that be easy and economical to do? And then if you want to go to Google Earth and somebody could look down and say, oh, that's a pretty big building there, you know, try to get an guesstimate of what it might be. [LB476]

LARRY DIX: Yeah, more than likely the list that currently goes into the property tax administrator if you look at that list, you would probably have a pretty good idea today because it would say, city of Monroe. It would say, Chadron State College. It would say University of Nebraska. It would say, St. Peter's Catholic Church. You know, so you would really...you have that information right now that if somebody wanted to parse through the list, I think you probably would have a pretty good idea of what it is today just by going through that. Now, second to that, it would be a lot easier if we were to say, okay, by such and such a time we need to have a code in the computer that would identify a type of exemption so it is...so we could code it. And then we could generate that list and then easily sort out, here's, you know, here's the ones that are public property. [LB476]

SENATOR SCHUMACHER: Would that be terribly expensive to do? I mean, if we look at...we're not going to change anything overnight with this anyway. [LB476]

LARRY DIX: Yeah, I think, you know, I would really want to take the opportunity to talk to a programmer to see how that database is set up. I can't tell you if there's a flag that's exempt, or if it just carries a zero value. Now, my guess is there's a flag already in there. My guess is it's a one-character flag that probably is E. So, I mean, I can check for you. [LB476]

SENATOR SCHUMACHER: So there's the possibility that this data could be easily produced if luck is on our side. [LB476]

LARRY DIX: Yeah, if luck is on our side we could, you know, we could code it somehow. But it would really then just be coding it so you could get the list. It wouldn't...it would not be giving you any market value. It would just say, here are the properties that are exempt. [LB476]

SENATOR SCHUMACHER: And it would give us probably the longitude and latitude of the property. [LB476]

LARRY DIX: If you had a GIS system. [LB476]

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SENATOR SCHUMACHER: Yeah, which most do. Thank you. [LB476]

SENATOR GLOOR: Senator Brasch. [LB476]

SENATOR BRASCH: Thank you, Chairman Gloor, and thank you, Mr. Dix. You had said something earlier that just struck close to home a little bit when you mentioned a college. Dana College, that's been empty for quite a while. Hopeful buyer possibly Midlands College, I'm not really sure where that's at right now exactly, but I think what you're saying is there's a value of building, land, but to find that person, company, entity, or another private college to fill that spot, what value do we have in that? [LB476]

LARRY DIX: Right now my assumption is, it probably is carrying a zero value. I don't...because as far as I know, that college still owns it. No one, to my knowledge, has purchased it. [LB476]

SENATOR BRASCH: But would we want to put it on the books, value of zero, or potentially X million dollars, or...I guess I'm trying to figure out where... [LB476]

LARRY DIX: Right now depending on...and I don't really know who owns that property and maybe you do. I don't know who owns that property, but I believe it's still on as zero. I don't know that they're collecting tax off of that and we haven't had a sale and logically if it would sell to Midland College it would still have a zero value. So, we still wouldn't go out and value those buildings because they would...my assumption would be exempt. [LB476]

SENATOR BRASCH: But for the stated purpose of this legislation here, you know, I don't quite understand the necessity of doing...who would benefit from this. [LB476]

LARRY DIX: Yeah. I mean our belief from a county assessment from a county board, we don't believe we would see any benefit from knowing what the market value of an exempt property is. Now, there may be some logic from a policy point for the legislature. [LB476]

SENATOR BRASCH: And probably a lack of comparable sales of a college to another college or... [LB476]

LARRY DIX: Right. Yeah, I just don't know of any. [LB476]

SENATOR BRASCH: But you had mentioned that earlier and I...it just brought to my mind, you know, what we have in Blair currently, so. [LB476]

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LARRY DIX: In your district, yeah. [LB476]

SENATOR BRASCH: I have no other question. [LB476]

SENATOR GLOOR: Thank you. No other questions. Thank you, Mr. Dix. Any other opposition? [LB476]

RICK COLGAN: Good afternoon. I'm Rick Colgan, R-i-c-k C-o-l-g-a-n and I'm with the Dodge County Assessment Office, and I'm here today to speak against LB476. Speaking against the bill because it would require our office to perform tasks that are going to be impossible to carry out. It appears to be an unfunded mandate and prior to what we heard from Senator Davis on the amendment, it appeared like there was no reason for the reporting. While we would certainly be able to provide the information regarding the parcels which are currently exempt from property taxes, many of us are concerned with assigning an estimated market value to those parcels. The legislature is asking us to determine the fair market value of churches, schools, courthouses, fire and police departments, cemeteries, city and state parks, stadiums, hospitals, and the hundreds of other tax exempt properties that exist under current law. When a building is first built, it's real easy to use the construction cost to determine the value of the property. However, many of the exempt properties we have in Dodge County are 60, 70, up to 100 years old. They're in various states of repair and this bill provides no guidance on how to justify any valuation that our office needs to set for compliance. How do we put a value on the Dodge County Courthouse? Should we use the median value of the commercial properties that...per square foot for office space, or should we use the value that's on the books of the county? Should we try to find a comparable sale of a 100-year-old building with granite walls? The information you're seeking seems like it should be readily available and lists of tax exempt properties are, but county assessors across the state do not regularly assign values to properties that don't pay property taxes. It's inefficient, it takes time, it's a waste of taxpayer resources. And for those reasons, we're opposed to LB476. Any questions I can help with? [LB476]

SENATOR GLOOR: I see no questions. Thank you. [LB476]

RICK COLGAN: Thank you very much. [LB476]

GREG SCHLEPPENBACH: (Exhibit 3) Good afternoon, Senator, members of the Revenue Committee. My name is Greg Schleppenbach, S-c-h-l-e-p-p-e-n-b-a-c-h. I'm executive director of the Nebraska Catholic Conference which represents the mutual interest of the Catholic bishops in Nebraska. The Nebraska Catholic Conference is opposed to LB476 for the following reasons: First, and most generally, we're concerned it will ultimately erode the validity and societal value of tax exemption for nongovernmental, nonprofit institutions and organizations

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that carry out special functions and broad public purposes that produce incalculable public benefits. In our view, this bill unnecessarily, and without sufficient basis, complicates Nebraska's longstanding traditional policy of providing exemption from property taxes for property owned by religious, educational, charitable and cemetery organizations and used for qualifying purposes as established and implemented pursuant to the Nebraska State Constitution and other forms of state law. Second, as a matter of policy and practice, if a property has been properly and successfully taken through the process and has met all of the precedent conditions and standards for exemption, as prescribed by the statutes and rules and regulations, then its value is unnecessary and irrelevant to the process of taxation. In other words, valuation is only a factor if the property has not been ruled to be exempt. Third, if a reason behind this legislation is that there are truly legitimate fact-based concerns that some properties are being exempted that should not be exempt, then the discussion should be about those concerns and the standards and processes that determine tax exemption, not about what quasi-tax valuations can be assigned to churches, cemeteries, nongovernmental education institutions, and all of the many and varied charitable organizations, as well as all of governmentally owned and used real property. Fourth, if the purpose is to use such estimates to facilitate some type of thorough, reliable, meaningful cost benefit analysis, then the difficulties, if not impossibility of doing so, on both sides of the equation, won't justify the time, energy, and resources that would be required. You've already heard how difficult it would be to reliably determine the actual value of a church in order to determine the extent of its expenditure. But even more, on the other side of the equation, how would one quantify the broad sociological benefits that churches, which are typically anchors in their communities, contribute to the common good? Regarding the traditional exemptions: the public policy presumption that benefits do indeed outweigh costs, in accord with a workable mechanism for qualification, has been settled for more than a century. Inherently flawed attempts to analyze a true impact of this policy can only erode it. Fifth, the factor of public disclosure promoted by this bill is an insufficient justification for the change in policy. The exemption process as it now exists is fully open to the public. The application forms and related documents are public information. The hearings before the county boards of equalization are open to the public. What's more, pursuant to subsection (5) of Section 77-202.03 of the statutes, every county board is required to annually publish in a newspaper of general a list of all real property that the board has by its process exempted from taxation. In our view, it is irrefutable that tremendous social advantages arise from the presence of religious, educational, and charitable entities within communities. They are actors that give collective voice to societal values of altruism and pluralism. If your expectations as policymakers are that religious, educational, and charitable entities will meet human needs, carry out social action, charity and ministry, provide education and perform the special function of religion for individuals and families, then exemption from taxes should not be eroded. Thank you for your time. [LB476]

SENATOR GLOOR: Are there any questions for Mr. Schleppebach? Thank you, Greg.
[LB476]

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GREG SCHLEPPENBACH: You're welcome. Thank you. [LB476]

SENATOR GLOOR: Are there any other opponents of this bill? Anyone in a neutral capacity? Senator Davis, you're recognized to come up and feel the love. (Laughter) [LB476]

SENATOR DAVIS: I'll waive. [LB476]

SENATOR GLOOR: All right. Thank you. LB476, that will conclude that hearing and this ends the hearing for today. [LB476]