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Revenue Committee
February 17, 2016

[LB925 LB936 LB995 LB1037]

The Committee on Revenue met at 1:30 p.m. on Wednesday, February 17, 2016, in Room 1524 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LB936, LB925, LB995, and LB1037. 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: Hi. Good afternoon. I'm Senator Mike Gloor, District 35, Grand Island. I serve as a Chair of the Revenue Committee. Welcome today. We're going to go through a few rules. We'll take the bills in the order listed on the agenda that's posted outside, although for those of you who looked at the agenda on-line, maybe streaming this, we've done a little reversal. We're reversing LB936 with LB925. Senator Ebke is being asked to be in two places at the same time, so we're trying to accommodate her as best we can and Senator Harr was gracious enough to go along with that. So the order of the bills will be as posted, not as on-line, with that change. I would ask everybody to turn off your cell phones. Please move to the front if you're going to provide testimony. When you do provide testimony, please fill out one of the forms in the back and hand that to the clerk so that we've got you on the record with the form. When you sit down, give us your name. Please spell your name. The order of testimony is in fact...maybe I'll go back and start with that. We start with the senator that's introducing the bill and they open. We then go to proponents of the bill, then opponents of the bill, then those in a neutral capacity. Senators who wish can then close on their bill and we move on from them. We have a five-minute time limit. We have a light tree up here that's green when you start and it's yellow when you have a minute left and it's red when I'm starting to clear my throat and encouraging you to wrap up your comments. So please keep that in mind. If you would like to provide some degree of testimony and let us know how you stand on a bill but don't want to get in front of the microphone, there is a sign-up sheet in the back where you can sign your name and let us know your position on a bill. Many people choose to do that and we certainly encourage it. If you have a written testimony or a handout of some kind, we need 11 copies. And if you don't have 11 copies, and have figured that out, get ahold of the page and they'll get those copies so that we have enough for you. To my immediate right is committee counsel, Mary Jane Egr Edson; research analyst is Kay Bergquist; and Krissa Delka is our clerk. Jordan is flying solo today. He's from Oakland and is the page that will be helping us through the committee meeting. I'm going to ask committee members to introduce themselves starting with Senator Davis.

SENATOR DAVIS: I'm Senator Al Davis from District 43, representing north central and most of western Nebraska.

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SENATOR HARR: Burke Harr, Legislative District 8, representing north central Douglas County.

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

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

SENATOR SCHEER: Jim Scheer, District 19, which is Madison and a small portion of Stanton County.

SENATOR GLOOR: Senators will come and go because they have, as is the case with Senator Ebke as I pointed out, bills that have to be introduced in other committees and so expect that there will be some coming and going with senators during the course of the hearing. And Senator Schumacher, would you like to introduce yourself?

SENATOR SCHUMACHER: Oh, I've been...I'm Paul Schumacher. I'm from District 22, that's Platte and parts of Colfax and Stanton Counties.

SENATOR GLOOR: And with that, we'll start with LB936. Welcome, Senator Ebke. Valentine was over a week ago. I like your outfit, but... [LB936]

SENATOR EBKE: (Exhibit 1) Senator Johnson and I didn't plan our wardrobes today. (Laughter) Thank you, Chairman Gloor and members of the Revenue Committee. For the record, my name is Senator Laura Ebke, L-a-u-r-a E-b-k-e. I represent the 32nd Legislative District which consists of Jefferson, Thayer, Fillmore, Saline, and the southwest portion of Lancaster County. I'm here today to introduce LB936, which would change inheritance tax rates in exemption amounts. I'm sure you've all heard about this because I've heard about it a lot from a lot of different places. Let me tell you first about the genesis of this bill for me. In 2014, as I was running for the Legislature, I was invited to come and speak to a class of seniors at one of the smaller high schools in my district. I was asked to talk about why I was running, what some of the issues were that interested me, and then to take some questions. All was fine until one young man, sitting kind of in the middle of the room, asked me a very simply question. He said, what about inheritance taxes? Now, honestly, I didn't know much about inheritance taxes at the time so I danced around that a little bit and I was saved by the bell at the end of the class period. I found out later that this young man either had been or was listed as the beneficiary of an uncle or great-uncle's will giving him a significant amount of land. I didn't think much about this after that, but had inheritance taxes come up again in the district during the interim. Let me explain the

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problem as best I can, simply, and I'm sure that the lawyers among you will correct my unlaywerly descriptions. Inheritance taxes are just that. Taxes assessed to inherited property, cash, real property, etcetera. The means of collecting the taxes is through probate which means that it goes through the county court system. There are other problems with that, not the least of which is that if you inherit money but the estate planning has been done in such a way that you don't have to go through probate, there is no means of enforcement at this point. If an attorney helps you, you'll be advised to pay the taxes though. If you were put on as the co-owner of your grandmother's checking account seven years ago, for instance, you may be able to take the cash and no one will be the wiser. But let's get back to what we're really talking about here. Property, and especially real property that's inherited. Because property will transfer title through inheritance, those who inherit real property have to pay the taxes in order to get clear title. So what? Well, let's look at a couple of examples and let's use a half section of land, 320 acres is our standard. The University of Nebraska's ag economics department 2015 report suggests that the average price of land throughout...it tells what the average price of land is throughout the state in different districts. I can get you their charts if you want, but I'm going to use the land in the southeast portion of the state which includes my district as the baseline. Average prices in my district in 2015 ranged in the \$2,275 for nontillable pastures to \$9,425 an acre for land with center pivot irrigation. The average across all types of land in the southeast portion of the state was \$5,990 an acre, so let's just call it \$6,000, just to make the numbers a little easier. So we have situation one: 320 acres of land inherited by a child or a grandchild, sibling, or other first-degree relative at an average cost of \$6,000 per acre comes to a value of \$1,920,000. Under current law, the first \$40,000 of that \$1,920,000 is...for a first-degree relative is exempt, which leaves an inheritance tax taxable amount of \$1,880,000. First-degree relatives pay at the 1 percent rate so they will write a check to the county treasurer for \$18,800, pay their attorney, and get clear title to the land. They might not pay their attorney, but they should. (Laughter) Situation two: same 320 acres of land. You have a bachelor farmer who has no direct heirs, but has left his half section to his nephew who has just gotten out of school and has been helping the uncle during the busiest times of the year. Same base amount of \$1,920,000, but only \$15,000 of that is exempt, so the taxable amount is \$1,905,000. But guess what? The nephew isn't a first-degree relative, so pays at the 13 percent rate. So his inheritance tax bill is \$247,000...\$247,650. Okay. Now remember, he may have been the closest thing to a child that the man had, may have been thought of as if he were a child, but he's not. So instead of paying \$18,800, he's got an inheritance tax bill of almost a quarter of a million dollars. And the nephew isn't happy because he doesn't have that kind of cash sitting around to pay the taxes unless his uncle left him a...made him a beneficiary in some big life insurance policy or something like that, Senator Harr. And...or has a lot of money in the bank to help clear out the property taxes, or the inheritance taxes. So he goes to the bank, he mortgages the property he's inherited so that he can pay that tax. Finally, situation number three: same 320 acres of land, Mr. Y and Mrs. X are in their eighties. Mrs. X has a nice pension via her late husband, which she loses if she remarries. The couple decided that they'd just live together seven years ago. Mr. Y has no living family and wants to leave his estate

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to Mrs. X and includes that in his will. He dies. One million, nine hundred and twenty thousand dollars of property left to Mrs. X. Only \$10,000 of it is exempt. So the taxes are based on \$1,910,000. Mrs. X, not being related to Mr. Y, is taxed at the 18 percent rate, which means she'll be writing a check for \$343,800. Again, hopefully some estate planning has been done, but she may be forced to mortgage or sell the land, although in the case of a sale, she has no clear title so that could be problematic and require a little more maneuvering to make that happen in order to pay those inheritance taxes. Now keep in mind that all of this land has already been taxed for as long as we've had property taxes, and remember as well that the new owners will have to continue to pay property taxes. So when someone dies, the property that they have had gets taxed again, sometimes at levels that give credit card interest rates a run for their money. And I won't lie, I don't like to have any more taxes than absolutely necessary, and when we do have taxes, I think there ought to be a level of fairness about them. And while I'm not...while I'm sure that some legislature once upon a time thought that taxing nonrelatives at a higher rate was a good idea because, you know, they really didn't deserve that inheritance anyway. It seems to me to be fundamentally wrong. Why should the state care who someone gives their property to upon death? Is it really our job to punish people for not having children or other direct heirs, or for having no family at all and leaving their property to someone who has been good to them? Is it our job to punish those less directly related or unrelated heirs because someone decided to leave something to them? So this is what LB936 would do. You have the original 320 acres of land at a base rate of \$1,920,000. Given the passage of time, inflation, net property jumps, etcetera, everyone gets a \$100,000 exemption from taxes. So we're going to figure the taxes on \$1,820,000. Same rate for everyone at 1 percent. That means that everyone will pay a property...or an inheritance tax of \$18,200.00. I would venture to guess that this will be plenty for administrative costs for giving clear title to the property and still provide a level of funding for the counties beyond the ongoing property taxes. And that property, presumably farmland, will be taxed at roughly \$1,440,000, which means that whoever inherited the property, if they have a tax levy of about 2.3 cents like we have in Crete, will still have a tax bill--if I've done my math correctly--of about \$36,000, if not in the current year, if that was already paid, then certainly in the next tax year. I recognize that there will be those who will oppose. I understand that different counties operate their inheritance taxes differently. I'm led to believe that some of the larger counties, because of a larger population base and the expectation of a more regular flow of inheritance tax dollars, budget for inheritance tax income and plan their general fund expenditures accordingly. For smaller counties, some use a separate fund for inheritance tax revenue due to the unpredictability of it and use those funds when they accumulate...for items outside of their regular operating budget. In Saline County we're using it, for among other things, help to pay for an addition to the courthouse without having to go through bonding. I'd certainly be open to considering phase-ins of some sort if the committee sees merit in moving to a fair inheritance tax structure. I had considered introducing legislation which would eliminate the inheritance tax altogether, although I realized that that would be even less palatable than the proposal before you. But I think it's important for us to have this conversation about tax policy

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and whether, if we must have an inheritance tax, we should strive for some level of fairness. According to the Tax Foundation, we are one of only six states with an inheritance tax and our top rate is the highest of those six. I've sent around a sheet of paper for you that describes that. With that, I'd be happy to try and take any questions. I do have another bill in another committee, so I may not be able to stay until the end and if I do have to leave, consider my closing waived. [LB936]

SENATOR GLOOR: Thank you, Senator Ebke. Questions? Senator Davis. [LB936]

SENATOR DAVIS: Thank you, Senator Ebke, for bringing the bills, one I've wrestled with a lot myself. But how do you anticipate the counties are going to make up for the lost revenue? [LB936]

SENATOR EBKE: Well, I mean, that's always the problem I guess if they're using them for extra projects like many of the counties in our districts probably are, not budget in as part of their regular property...as part of their regular operating budget. I think a phase-in period makes sense. I think that over time, for instance, if you make the case to the citizens that they need a new courthouse or an improvement on the courthouse, or whatever, that bonding could be done and you could take it to a vote of the people. I mean, the...for me, it's ultimately a matter of, you know, my father's an attorney. I was talking to him about this last night. He said, oh, yeah, we just took a check for \$640,000 over to the county treasurer for a little over a half a section of land that was given to somebody who was not a relative. You know, at what point does it become too much? And if that person had had a relative, it would have been, I don't know, one-eighteenth of that, so. I don't have a solution for where it comes up. I'm convinced that we can find one, especially if we do some sort of a phase-in. [LB936]

SENATOR DAVIS: You know, I guess the point I'm trying to make is, we constantly hear that the property taxes are too high, take away the revenue, what well do you go to? It seems to me like there's maybe only one well to go to. Thank you. [LB936]

SENATOR GLOOR: Other questions? Seeing none, Thank you, Senator Ebke. We'll now move to proponents for LB936. Are there proponents for LB936? Good afternoon. [LB936]

JAREL VINDUSKA: Good afternoon, Senator Gloor and members of the Revenue Committee. Do you guys have a way of turning up the mike? I don't think the people in the crowd can hear very good. Is it as loud as it gets? [LB936]

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SENATOR GLOOR: I will ask the Senators to speak into the microphone and that way they can be heard a little better. Thank you. [LB936]

JAREL VINDUSKA: Okay. Thank you. I came here actually to support two other bills, LB1037 and LB995, but when I saw that this was on the agenda, I'm going to speak more in behalf of good friends and neighbors of our farm in Sarpy County. [LB936]

SENATOR GLOOR: Could I ask you to give us your name and spell it for us. [LB936]

JAREL VINDUSKA: Oh, yes, sorry. Sorry. Jarel, J-a-r-e-l, Vinduska, V-i-n-d-u-s-k-a, 19506 South Highway 31, Gretna, Nebraska. I'll just give a quick scenario of another harm that the existing situation can cause and why I'm in support of this. Like I say, my friends and neighbors there, they didn't have any kids and they've got about 600 acres of land in Sarpy County, but their goal was to preserve it as agricultural land, you know, in the face of ever-expanding developments in Sarpy County. So they put a conservation easement on the whole property to accomplish that. And like I said, since they'd have no blood relatives, years ago they had a rental house on the property and the family that moved into it had two sons. And when the kids got a little older, they started taking an interest in farming and wanted to help out a little at times, so our friends let them do that. They let them work on the farm and now they want to become farmers, but as you might guess, 600 acres in Sarpy County is multiple millions of dollars worth of property. And so, if they got stuck at this 18 percent rate, they would...unless, you know, they got income from some other source or savings from some other source, they would have to sell a portion of this farm to pay the tax and the goal was to keep it being an intact farm. And so that would be a shame and in my mind, legislation, the goal, the overriding goal should always be to keep equal treatment under the law. And I don't see this as equal treatment. What business is it of the state whether you're a relative or in what stage? And to answer Senator Davis' question, you know how are we going to come up with the money that this might prevent local governments from getting, well, if it's determined that this money is needed and we can't find it any other way, then once again, in my mind, the goal should be, well, then make the rate the same for everybody. Make either lower the amount that's protected from the tax or raise the percentage that you pay, but still keep it equal across the board. So, thank you. That's all I have to say, unless there's any questions. [LB936]

SENATOR GLOOR: Are there any questions for Mr. Vinduska? Seeing none, thank you for taking the time to testify. [LB936]

JAREL VINDUSKA: Okay. [LB936]

SENATOR GLOOR: Next testifier as a proponent, please. [LB936]

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JESSICA HERRMANN: (Exhibit 2) Good afternoon. Thank you, Chairman Gloor and members of the Revenue Committee, my name is Jessica Herrmann, J-e-s-s-i-c-a H-e-r-r-m-a-n-n. I'm testifying in support of LB936 on behalf of the Platte Institute for Economic Research. Over the years our staff has testified before this committee about a lot of different ways we can improve Nebraska's tax system. One of the most important principles we have tried to introduce into Nebraska's tax discussion is the need to not impose taxes on Nebraskans that make our state's tax climate uniquely burdensome. Having an exotic type tax like an inheritance tax is a clear example of a tax that can cause our state to lose more in the long term than we gain from the tax in the short term. Nebraska is among a shrinking group of states that still has an inheritance tax. Currently, only six states still levy this tax. Over recent years, Kansas, Indiana, North Carolina, Ohio, Oklahoma, and Tennessee repealed their state inheritance taxes. These states have recognized that an inheritance tax is not only an unfair double taxation on income, but also negatively impacts family businesses. Families and other inheritors without cash on hand are often forced to sell their home or business in a desperate attempt to pay the tax man. This is particularly true in Nebraska, as our state has the country's highest possible inheritance tax rate with very low-income thresholds to which the rates are applied. The Tax Foundation reports that inheritance taxes are among the most hostile to economic growth and have high compliance costs. A 1993 study by George Mason University found that states would gain more revenue in the long run by eliminating the inheritance tax due to its economically destructive impact on capital formation and investment. Conceptually, the research shows Nebraska will be better off economically if we end this tax. Practically, we think Nebraska should take whatever incremental steps it needs to through spending restraint to achieve that goal. A long-term path to ending a destructive tax is far preferable to leaving things the way they are. As with any phase-out we can look around the country for states that have taken those same steps. Indiana set out to eliminate their state inheritance tax over ten years. In their case, they were able to accomplish a full repeal in only about two years, while cutting other taxes as well. Appreciate that some committee members, and certainly local officials, may not be satisfied with the simple answer that local inheritance taxes should be phased-out through spending restraint. Property taxes are too high in Nebraska, but the inheritance tax is an even bigger drag on the state's prospects for long-term economic prosperity. All of our other tax bases will grow more if Nebraska does not have an inheritance tax. The more generous our inheritance exemptions are the fewer families and businesses will be deterred from staying here and building wealth. LB936 is a step in the right direction, even if the rates or exemptions need to be amended downward or phased-in over a longer period of time. We should take any step we can as a state to raise needed revenues in the least economically destructive manner. Thank you, and I would be happy to answer any questions. [LB936]

SENATOR GLOOR: So, Ms. Herrmann, is the Platte saying that getting rid of inheritance tax is a higher priority than dealing with property taxes, and bringing them property taxes? [LB936]

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JESSICA HERRMANN: Well, what we're saying is that if there's a hierarchy that the Tax Foundation uses, most economically destructive to least economically destructive, and the inheritance tax ranks higher than property taxes. But, you know, we certainly understand that, you know, politically property taxes is a huge deal and it's a huge drag on our economy as well. So, you know, we've got to, if counties are...if we're going to undertake this, then, you know, counties need to exercise some spending restraint and the state can have a role, too, looking at unfunded mandates in trying to make that review. [LB936]

SENATOR GLOOR: Senator Schumacher. [LB936]

SENATOR SCHUMACHER: Thank you, Senator Gloor. Thank you for your testimony again. Can you explain to me the difference between an inheritance tax and an estate tax? [LB936]

JESSICA HERRMANN: Certainly. One that we discussed in our office yesterday because the two terms are often used interchangeably. Inheritance tax refers to, you know, a state tax. There's only six that have it right now, but somebody would inherit based on...and the tax rate you pay is based on the degree of kinship you are to the deceased. So, if my grandfather, my father leaves me some property, I'm probably going to pay one of the lower tax rates, but if it's a family friend that I have no relationship to, then that tax rate can increase up to 18 percent. An estate tax, which is levied I think in 19 states, including D.C., that is a total tax on the entire estate regardless of kinship. [LB936]

SENATOR SCHUMACHER: And one is...who is the estate tax levied on? [LB936]

JESSICA HERRMANN: Nebraska does not have an estate tax, but I believe in other states it is levied on whoever the person is that is named in the will. So it could be...it doesn't matter if it's, you know, a child, or a sibling, or a niece, or, you know, my close friend, Bob. [LB936]

SENATOR SCHUMACHER: Who then is the inheritance tax levied on? [LB936]

JESSICA HERRMANN: The inheritance tax is also levied on whoever inherits, but the tax rate varies based on your kinship. I mean, the main difference whereas the state taxes doesn't matter what your kinship is, but it's just levied on the total property. [LB936]

SENATOR SCHUMACHER: So as far as your perspective is, the only difference is the one has a different classification of relative, how you are related. [LB936]

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JESSICA HERRMANN: Well, one has a different classification. The inheritance tax also would apply on every single transaction. So, if I die and I divide my parcel up into five slots and I give one to a sibling, one to a niece, one to my neighbor, Joe, and so on, then those are...all of those are taxed, but I believe an estate tax is just the one tax on the total value. [LB936]

SENATOR SCHUMACHER: Thank you. [LB936]

SENATOR GLOOR: Seeing no further questions, thank you for your testimony, Jessica. [LB936]

JESSICA HERRMANN: Thank you. Absolutely. [LB936]

SENATOR GLOOR: Other proponents for this bill. We'll then move to opponents for this bill. Good afternoon. [LB936]

DEB SCHORR: (Exhibit 3) Good afternoon, Senator Gloor and members of the Revenue Committee. My name is Deb Schorr, D-e-b S-c-h-o-r-r. I'm appearing before the committee in my capacity as a member of the Lancaster County Board of Commissioners, and as the Secretary/Treasurer of the Nebraska Association of County Officials. I'm here to express the strong opposition of both Lancaster County and NACO to LB936. My testimony will concentrate on the negative impact this bill will have on Lancaster County. Further testimony will be offered by NACO Executive Director Larry Dix on the impact of this bill to other Nebraska counties. Changes to inheritance tax exemption amounts and tax rates as proposed under LB936 would result in a large reduction in the amount of proceeds collected by Lancaster County. Our conservative estimates indicate the reduction could be as high as 80 percent. Applying this percentage to our five-year average for inheritance tax collections results in a \$5.25 million annual loss of income to Lancaster County. Please consider the following facts in measuring the impact of this loss to our local property taxpayers: \$5.5 million represents funding for 104 employees, which is 12 percent of the counties total work force. It would be extremely difficult to absorb this revenue reduction by cutting costs without jeopardizing basic services. In Lancaster County, the inheritance tax plays a key role in balancing our budget and keeping property taxes as low as possible. All inheritance tax revenues are deposited into the county's General Fund to help cover operating expenses, therefore providing direct property tax relief. \$5.25 million is equivalent to a property tax levy of 2.3 cents, or approximately 8.3 of our entire levy for the present fiscal year. While the Legislature has created numerous mandated responsibilities for counties, our revenue tools are very limited. And I appreciate your comment, Senator Davis, about only one well to go to. More pressure will be placed on the real property tax by taking away one of the few revenue sources available to counties. If the inheritance tax is reduced as proposed by LB936, there is no guarantee the additional money received by the

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beneficiaries will stay in our county, or for that matter, in the state of Nebraska. In fact, our records indicate some beneficiaries who live in other states have received substantial inheritances. On the other hand, every cent of inheritance tax collected will be invested in our community. Reducing the inheritance tax will result in a tax shift to the average property taxpayer. The annual average number of probate actions processed by the Lancaster County Court is around 750, with 72 percent of these cases resulting in the payment of inheritance tax. Since most transfers are made to close relatives, even fewer transactions affect distant relatives and nonrelatives. However, the revenue from inheritance tax returns for distant relatives and nonrelatives is substantial, and replacing these funds with property tax will come right out of the pocket of those hardworking real property tax owners in our county. A major criticism of the inheritance tax is that it creates a financial barrier to parents who wish to pass along the family farm, ranch, or business to their children. This problem can be solved by careful estate tax planning, and is simply not involved with the higher inheritance tax rates paid by distant relatives and nonrelatives. Finally, a \$5.25 million funding reduction would severely undermine the county's ability to provide basic public safety services. Whether it's through the dismantling of our community's social safety net, or cuts to those agencies which provide direct service to the public, at the end of the day the safety of our community would be negatively impacted. Thank you, and I'd be happy to answer any questions. [LB936]

SENATOR GLOOR: Thank you, Ms. Schorr. Questions? Seeing none, thank you for taking the time to testify. Continuing with testifiers in opposition. [LB936]

JOE LORENZ: (Exhibit 4) Good afternoon. My name is Joe Lorenz. I'm the Douglas County finance director, and I'd like to spend a couple of minutes giving the position of Douglas County on LB936. I'm handing out some sheets that have my talking points on them. In Douglas County the annual proceeds from the inheritance... [LB936]

SENATOR GLOOR: I need you to give and spell your name. [LB936]

JOE LORENZ: Oh, I'm sorry, L-o-r-e-n-z. Joe Lorenz. In Douglas County the annual proceeds from the tax over the past five years have averaged \$11.5 million. Put that in context, our total budget is about \$370 million, so the proceeds average about 3 percent of our total budget, and property tax proceeds for the county are about \$110 million, so the inheritance tax is about 10 percent of the total property tax. So it's a material amount for the county. On average, there are about 1,000 estates per year subject to the inheritance tax in Douglas County, and in a county with a population of over 500,000 it equates to 0.2 percent of county population or residents being impacted by the inheritance tax. In Douglas County it's ranged between like nine and half and \$14 million over the past five years. So it's kind of a law of large numbers so that we were...it's a pretty consistent amount, so we're allowed to budget for it. And within our budget

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this year, I have a breakdown of the \$13.5 million that we're using from the inheritance tax fund and where it goes. If you look at it, you can see \$4 million was going to the Douglas County Health Center; \$3 million to the General Fund; \$2.5 million to community services, which is general assistance; \$1.5 million to the Health Department; there's money that goes to...\$300,000 to veterans; \$200,000 to help us fund the cost of sending people to the state institutions at Beatrice and Lincoln; and we make the contribution to the University of Nebraska Medical Cancer Center of \$500,000 out of the inheritance tax fund. So in total, it's \$13.5 million that's in our budget this year from the inheritance tax fund. And as you can see, these proceeds are primarily used to fund essential and mandated social services. So it's a really important part of our source of revenue for our budget. LB936 which increases the exemptions and reduces the tax rates on a state subject to the inheritance tax would significantly reduce the amount of inheritance tax revenue received by the county. I did one estimate here of using about two-thirds, you know, the people at Lancaster said it might be more like 80 percent, but whatever, it's a big number. But if it were reduced by \$8 million, since we really don't have any options if we would want to raise fees or things like that, that would require approval from the Legislature which we're not counting on. So the natural place to look, unfortunately, would be property taxes. And to offset that \$8 million shortfall, if we lose as an inheritance tax, would equate to a 7.5 percent increase in the property tax rate to offset. And to put that in context, our levy right now is 6.1 percent higher than it was ten years ago. So we've been pretty prudent in managing our tax levy and if we take...a significant source of revenue is taken away, it really puts us in a bind about trying to raise money to fund the essential services. So, I guess in closing, I would just say that we're going to kick off our budget process on March 1st and I've been doing some preliminary work. I got the numbers from the register of deeds that in Douglas County, property values are only going to be up about 1.2 percent this year. So, going in, it's already a challenging environment. We're probably looking at a shortfall of several million dollars and loss of inheritance tax revenue on top of that would severely impact our fiscal situation. I'd be glad to take any questions. Thank you. [LB936]

SENATOR GLOOR: Thank you. Senator Davis. [LB936]

SENATOR DAVIS: Thank you, Senator Gloor. So what is the Douglas County levy? [LB936]

JOE LORENZ: 28.054. [LB936]

SENATOR DAVIS: And what is the cap? [LB936]

JOE LORENZ: Oh, it's significantly higher, but if you would look at residents in Douglas County, if you add the Douglas County levy and the city of Omaha levy on top of it and you look at total taxpayers, that the total levy it's up, one of the top in the state. [LB936]

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SENATOR DAVIS: But the county levy is 28 cents. [LB936]

JOE LORENZ: That's correct, sir. [LB936]

SENATOR DAVIS: The cap is significantly higher. So you don't think it would be fair for the taxpayers of Douglas County to pay for the privilege of the services they get? [LB936]

JOE LORENZ: We're always trying to not raise taxes, but at some point we have to provide services. [LB936]

SENATOR DAVIS: But somebody has to pay them. [LB936]

JOE LORENZ: Yes. Yes. [LB936]

SENATOR DAVIS: Thank you. [LB936]

SENATOR GLOOR: Senator Schumacher. [LB936]

SENATOR SCHUMACHER: Thank you, Senator Gloor, and thank you for your testimony. In coming up with your numbers, have you done an analysis of how much of the proceeds of inheritance tax come from the 1 percent category, comes from the 13 percent category, and comes from the 18 percent category? [LB936]

JOE LORENZ: Senator, I have not seen those numbers. The numbers I get come from the county attorney's office. And even in, you know, the estimate of the fiscal note of the state, I never saw the breakout. So, I can't really tell you which of the three classes how it's impacted. [LB936]

SENATOR SCHUMACHER: And the impact of the Supreme Court decision on gay marriage certainly will have some impact upon the 18 percent category because up to this point that was taxes unrelated. Should folks marry, then they will be related and there will be no tax at all. Any analysis of how much that's going to impact? [LB936]

JOE LORENZ: No, I haven't seen that analysis either, sir. [LB936]

SENATOR SCHUMACHER: Thank you. [LB936]

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SENATOR GLOOR: Seeing no further questions, thank you, Mr. Lorenz. [LB936]

JOE LORENZ: Thank you. [LB936]

SENATOR GLOOR: Continuing with those in opposition. [LB936]

FRED UHE: Senator Gloor, members of the Revenue Committee, my name is Fred Uhe, F-r-e-d U-h-e. I'm the director of committee and government relations for Sarpy County appearing today on behalf of Sarpy County Board of Commissioners in opposition to this particular bill. Sarpy County, we collect approximately \$1.5 million on an average basis of inheritance tax. We do keep that in a separate fund because the need to track it, I mean it's not dollars we can count on, you know, every year, but we have in the last three years have been able to direct \$3.4 million to our General Fund, which is 100 percent direct property tax relief. And over the years we've used these funds besides property tax relief to purchase land for a parking lot, some unexpected software enhancements. A couple of year ago in an attempt to be prudent we spent about \$150,000 to remodel some office space in our public...in our jail facility to move our public defender and to end a lease. Unfortunately, with the juvenile justice reform three years ago the lease has been renewed because now that is housing juvenile probation officers, so. We've attempted to be prudent. In Sarpy County, our budget is about \$138 million. Our tax asking is \$38 million, so it would be approximately about a 3 percent increase in property taxes required if we were to lose this revenue. So with that, I would be willing to answer any questions. [LB936]

SENATOR GLOOR: Thank you. Are there questions for Mr. Uhe? I see none. Thank you. [LB936]

LARRY DIX: (Exhibits 5-7) Good afternoon, Senator Gloor. 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 opposition to LB936. A couple of documents that I'm handing around, I know that you've received a number of letters from a number of our counties in regards to inheritance tax and what those counties look for to utilize that, that revenue source. So I know there's a good number of those. These just came in over the lunch hour. They're from Buffalo County and Otoe County and so if we'll enter those in on the record. The other document that's being handed out that I think each year we try to provide to the Revenue Committee when there's an inheritance tax bill and that is a listing by county of what inheritance tax. And this is for fiscal year '14 and '15 and I think when I made the handouts, I think I was short some. Some of you may see calendar year '15, but it should be the fiscal year '14 and '15. And this is an amount that we go...we request this information from the county each year so that we can gather and see what is going on. So if you look at really the bottom of the page for the fiscal year '14 and '15, inheritance taxes in the state of Nebraska came to about \$66 million is what came in as a revenue source to our counties.

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Senator Schumacher, you had asked, I believe the question of sort of the silos, how much is in the Class I's, II's and III's. And for us to gather this information, there are some years we'll actually go out to the counties and we usually pick about ten to twelve counties and we actually pull all the records, analyze them, and, of course, as you know, that takes a significant amount of time to go through and figure out what column they're in and things like that. But the last time we did that was in 2013 and if I remember right, Senator Schumacher, these numbers are very close. I can't say they're exact, but Class I's are...at that point in time, were ranging between 40 and 45 percent of the revenue. Class II's, somewhere in the area of 35 to 40 percent, and Class III's were 10 to 15 percent. So the follow-up question that you asked with...in relationship to some recent court rulings. The next time that we go out and do that analysis, then we'll try to come back and see if there was fundamentally any shift to one of those silos that wasn't there before. Maybe there's an indication. Again, it's not a statistically...I wouldn't say statistically accurate because we're not doing all 93 of them, we just take a sampling and we try to go around the state and pick out different regions and we typically stay with that same set of counties that we do each and every year so that we can do a little bit of comparison from year to year. So, with that, I'll open it up to any questions anyone may have. [LB936]

SENATOR GLOOR: Questions for Mr. Dix? Senator Harr. [LB936]

SENATOR HARR: Thank you, Chairman Gloor. And I apologize, was that percentage of...the numbers you gave, percentage of the total number of cases or percentage of the revenue collected? [LB936]

LARRY DIX: Percentage of the revenue, yeah. [LB936]

SENATOR HARR: Okay. [LB936]

LARRY DIX: I do not...I don't know that we analyzed the number of cases because one inheritance tax, of course, could have folks that fell into all three of the silos. And so I don't...I don't...the information obviously are on those sheets, but we do not count how many are in silo three, silo two, silo one. We just lump them together and get the revenue for that silo. [LB936]

SENATOR HARR: Great. Thank you. [LB936]

SENATOR GLOOR: Senator Scheer. [LB936]

SENATOR SCHEER: Thank you, Senator Gloor. Thanks for coming over, Larry. I guess more of a comment than anything. I'm looking at Douglas County and maybe this year was an anomaly,

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was \$12 million. And as I'm looking through the list, I see some really small counties, very little population, I mean, Boone, \$1.2 million. I mean, they would have to have less than 100 of the population, but the inheritance tax has got to be developing a much higher proportion amount of the budget than...if you look at these numbers, they're very, very small and you've got two large ones, but even like Lancaster was only \$5 million. And so I look at Lancaster County compared to even Boone and that's literally, you know, 25 percent of, in Boone, it's 25 percent of Lancaster County. It just seems really disproportionate. [LB936]

LARRY DIX: And Senator Scheer, I would say that this is a snapshot of one year and, of course, I've been watching these for ten or fifteen years and I will tell you, there are some wild swings in some of the small counties and I think one that sort of grabbed my attention was Sherman County which had \$137. That's in Senator Sullivan's district. And I know that if you were to go back over ten years, Sherman County wouldn't average \$137, but I think you're going to see some very wide swings within counties, and I know you will. We do see it, and that's what you see in the small counties. [LB936]

SENATOR SCHEER: Do you have other years of...I'm not asking you to do a lot of extra work, do you have others that you put together over various years? [LB936]

LARRY DIX: Yeah, Senator Scheer, we have gathered this information every year for the past, I know, ten years that we put this together each and every year. [LB936]

SENATOR SCHEER: Would you mind getting me that? [LB936]

LARRY DIX: Sure, I can get that to you. And I can get to everyone on the Revenue Committee if you would like that, but that is information. And historically, every time there's an inheritance tax bill, I bring that handout so it's been there. But I can certainly try to compile that over the multiple years and we can actually look and see what those...what the movement has been. [LB936]

SENATOR SCHEER: I appreciate it. Thank you. Thank you, Senator Gloor. [LB936]

SENATOR GLOOR: Senator Schumacher. [LB936]

SENATOR SCHUMACHER: Thank you, Senator Gloor, and thank you, Mr. Dix, for appearing. Just from the numbers you gave us, if you look by number of heirs, then the great bulk of the heirs are Class I heirs because they're only paying at 1 percent and they generate 45 percent, so the great bulk of the estates are not nieces and nephews getting a windfall. [LB936]

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LARRY DIX: I would agree. [LB936]

SENATOR SCHUMACHER: Okay. Now, Senator Ebke raised an issue which I don't know if your organization has studied, I know it's an issue and I'd kind of find out what your reaction and thoughts are. What trips you up on the inheritance tax is having a piece of real estate involved because you have ten years in which the title is gummed up and you're running a risk of 14 percent interest if you don't get the matter cleared up. And the minute you file the paperwork to clear up the matter, you get stuck on filing sworn statements as to the value of the estate. And then it gets brought into the inheritance tax situation. If however, grandma doesn't own any real estate and grandma has a million dollars in four different banks of \$250,000 a pop, and the kids names are on as joint tenancy, and they walk into the bank with grandma's death certificate, and they walk out of the bank with the cash. I don't know if you get that much cash out of the bank these days, but anyway, you'll walk out with the value, you...there's no enforcement mechanism. Have the County Attorneys Association, has your association, looked into what mechanisms we might impose to trip up those transactions just like we trip up the real estate transaction? And that might partially account for the disparity that I think that Senator Scheer's detecting. [LB936]

LARRY DIX: Senator Schumacher, we have not looked specifically at that. I believe in previous years there have been senators that have said, well, possibly there should be a notification sent out every time there's an obituary listed in the paper that comes from the county attorneys that says...and really just lays out the law that says, you may be subject to inheritance tax for situations like that because right now, it is really the legal system that when an attorney goes, or when somebody dies and they go through the will, probate, they say, oh, by the way, you're going to have inheritance tax and that's how that information gets reported to the county. But we do believe that there probably are some instances where some people do inherit some value greater than the thresholds that are in current statute of which the county receives nothing on. [LB936]

SENATOR SCHUMACHER: And that applies to brokerage accounts and lots of things and could amount to substantial leakage from the system. [LB936]

LARRY DIX: It could. Certainly could. [LB936]

SENATOR SCHUMACHER: Thank you. [LB936]

SENATOR GLOOR: Other questions? Thank you, Larry. [LB936]

LARRY DIX: Thank you. [LB936]

SENATOR GLOOR: Other opponents? [LB936]

RENEE FRY: (Exhibits 8-9) Good afternoon, Chairman Gloor and members of the Revenue Committee. My name is Renee Fry, R-e-n-e-e F-r-y. I'm the executive director of OpenSky Policy Institute. I'm here today to testify in opposition to LB936. Cutting the inheritance tax would deprive counties of one of their few revenue sources and essentially force many Nebraska counties to cut vital services that residents rely on or raise property taxes. In fiscal year '15, the inheritance tax raised was \$66.7 million. The amount of inheritance tax collected varied significantly from county to county, ranging from \$137 in Sherman County to over \$12 million in Douglas County. The average county revenue from the inheritance tax was \$717,000 and the median county revenue was \$362,000. Counties would have had to increase property tax levies 11 percent on average to replace the lost revenue if the inheritance tax had been completely eliminated. In 2012, we wrote a report regarding the elimination of the inheritance tax. I'm going to discuss some of that information with you today. At the time of our report the inheritance tax raised \$43 million on average over a three-year period. The amount of inheritance tax collected varied from \$8,500 to \$8.5 million per county, and ranged from less than 1 percent to 22 percent of a county's general fund budget. Counties would have had to increase their property tax levies 7 percent to replace lost revenue from the inheritance tax. At the bottom of page 5 of the report that you have is a color-coded map that shows what ability counties would have had to manage the loss of inheritance tax revenue. We created four groups of counties based on inheritance tax as a percentage of revenue, their level of cash reserve, how close they were to their property tax levy limit, and how close they were to their spending limit. The green counties on the map would have suffered the most hardship if the inheritance tax had been eliminated because they had low reserves and couldn't raise property taxes to replace the revenue without exceeding property tax limitations, which would require public votes. Approximately 26 counties were in this category that would have been hardest hit. If these counties had first turned to replacing the inheritance tax with reserves, they would have had, on average, less than two years before their reserves were reduced below recommended levels. Not only would this have put counties at risk of service lapse, but reserves of less than 15 percent are considered a "red flag" by credit agencies, so that insufficient reserves could cause credit downgrades leading to higher interest rates on borrowing, bringing more trouble to county budgets. And the next category are counties that could have temporarily managed the loss of revenue by drawing down reserves, but lacked the flexibility to raise property taxes when those reserves ran out. There are 36 counties in this category and they're designated by the darker shade of blue on our map. These counties could potentially have replaced the inheritance tax revenue by tapping their reserves for at least three years, but once those reserves had been exhausted these counties would have found themselves in the same pinch as the 26 counties in the previous category. The next group of counties were those with low reserves and room under property tax limitations to replace the revenue through increased property taxes. These eight counties, which are shaded in light blue on the map, would have had to cut services or raise property taxes as they did not have sufficient reserves to cover

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the loss of the inheritance tax. However, they would not have been constrained by state limitations if they chose to make up the lost revenue by raising property taxes. The final category are those with the most flexibility to manage the loss of revenue. There are 23 counties in this group and they are marked in white on our map. These counties had larger reserves and would not have been constrained by state limitations if they chose to make up the lost revenue by raising property taxes. But that's not to minimize how important the inheritance tax is to these counties; it's just that they were in an enviable position because they had more in reserves and were not constrained by property tax limitations. LB936 would leave counties with an impossible choice: slash services that we rely on such as road maintenance; drain cash reserves that are needed to protect bond ratings and will leave counties vulnerable to unexpected emergencies; or raise property taxes if they can do so. Therefore, we recommend at this time the state maintain its inheritance tax at the current rates. Thank you for your time. I'd be happy to answer any questions. [LB936]

SENATOR GLOOR: Thank you, Ms. Fry. Questions? Seeing none, thank you for your testimony. [LB936]

RENEE FRY: Thank you. [LB936]

SENATOR GLOOR: More opponents? Anyone in a neutral capacity? Seeing no one in a neutral capacity...I'm sorry. [LB936]

EDWARD GEORGE: May I speak as a neutral? [LB936]

SENATOR GLOOR: Absolutely. [LB936]

EDWARD GEORGE: Thank you for the opportunity, Senators. My name is Edward George, E-d-w-a-r-d G-e-o-r-g-e. One of the things, I'm a Social Security recipient this year. One of the things that I have to think about is when back in my college days in the early '70s, my college professor said there's two things we're sure of, death and taxes. And so I'm sitting here analyzing this whole situation thinking about your platform when you were campaigning for elected office. And if that campaign office election to serving as a seat on this committee reflects on your values and your importance, I thought about how this, outcome of this piece of legislation should be considered. One of the things that I felt like you were very fair-minded to be serving on this committee by your constituents and also how you can be fair-minded to serving the state of Nebraska. My background is I grew up on a York County farm. My parents are still alive living on that farm, 92-year-old, my father, my mother is 86, with land. Back in the years when they were filing jointly, they decided to separate the land holdings, or basically saying if dad died before mother, mother would have some land. And now that I'm at retirement age, I'm one of

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four siblings, thinking about what my parents want to do in the best interest. Dad was a man who during the Depression didn't get the opportunity to go to high school. He pays more in property taxes now than he paid for most of his land but one thing he assures us all that the importance of education. So one of the questions I had to ask myself if we reduce property tax and inheritance, where would the shortfall be made up of in all the taxes as I remember my college professor saying. And so I don't really understand what if we reduce the taxes as a neutral, where is the shortfall going to be made up of? One of my backgrounds was, I'm an extension educator from '86 to '91. In '91, it's you, senators in the past, the past senators had to deal with shortfalls in budgeting. My appointment was terminated not because of (inaudible) valuations but the shortfall of revenue coming in at the state level to appropriation to the university. My performance was after those years because I was one of the newest extension employees, my job was terminated. It took an emotional toil on me. One of the other things that I thought about when I was listening to all of this testimony is, what is a situation of landowners who are absentee landowners not living in the state of Nebraska to vote for candidates and elected officials. As we all know, much of this land is being owned by absentee landowners, some of which are not residents of the state. But yet my father keeps saying because he was deprived of the educational opportunities and with 12 great-grandchildren and more coming along the way, for which they're living for, he feels like education is one of his highest priorities. So think about if you're not going...if you're going to reduce taxes, or if you're not going to reduce taxes, what does that mean to the landowners, the property owners, the household owners, and probably all of you have probably dealt with inheritance and inheritance taxes. One of my former colleagues told me as a landowner, his parents set up a structure that now there are over 90 heirs to the ownership of that land. Property distribution is reduced, but it means that they structured it in such a way. So thinking about that, does makes sense to you here is what I'm saying. I hear an acknowledgment of that, or see an acknowledgment of that. What does that mean if we're going to think about the property tax reduction. If you're not going to reduce taxes, does that mean that individuals will redefine the way that the inheritance tax...to void inheritance taxes will be structured. These are just some personal comments of feelings because I don't like paying taxes, but I know the taxes are inevitable as my college professor shared with me earlier in my life. Now I recognize that I have had to pay a lot of taxes in a lot of different forms and if inheritance tax from my heirs, even though I don't have any children, will be reflecting on who would inherit my estate. I welcome your comments. I see some smiles, I see some concerns. You have a tremendous responsibility on your shoulders. And I envy you, but I do not envy you in the decision you have to make. Thank you for your public service. [LB936]

SENATOR GLOOR: Thank you, Mr. George, and you brought up questions we've been asking ourselves pretty constantly during the past couple of weeks' worth of hearings. Are there any questions? Senator Sullivan. [LB936]

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SENATOR SULLIVAN: Thank you, Senator Gloor, and thank you, Mr. George. So I'm just curious, I don't know if you'd care to divulge it, but have your parents done any estate planning to anticipate some of these concerns that they might be facing? [LB936]

EDWARD GEORGE: They're looking at it now at this age. They worked so hard that they tried to establish a profitable farm which they did without much of an education. And so right now at the cost of trying to set up this estate, yes, they are considering that very strongly because they recognize their life will be short, but they enjoy the life that they have. But they want to consider as hard as they worked, how they want to make sure that's sustainable, but helps support people not only in our family, but help support people across the state. As Chairman of the Education Committee I recognize your importance of how you think about this committee as well as the committees you serve on. So, yes, my parents are looking at this very strongly. [LB936]

SENATOR SULLIVAN: Thank you. [LB936]

SENATOR GLOOR: Senator Schumacher. [LB936]

SENATOR SCHUMACHER: Thank you, Senator Gloor. There are five kids in your family? [LB936]

EDWARD GEORGE: Four, two boys and two girls. [LB936]

SENATOR SCHUMACHER: And how many of those still live in Nebraska? [LB936]

EDWARD GEORGE: One sister lives in New Mexico and my brother, Sammy, farming the family farm. My sister...I'm the oldest. My sister next is a school teacher in Nebraska, married with several children and grandchildren, so. And my youngest sister lives in New Mexico. Can't vote on things but her...one thing I would share with you that her father-in-law just died. Her mother-in-law is living there in New Mexico and they are large landholders in south central Nebraska, so that's why I pointed out the example. They can't vote on things in Nebraska. [LB936]

SENATOR SCHUMACHER: So one out of the four kids has left the state. [LB936]

EDWARD GEORGE: Right. Yeah. I think this is really one of my concerns that representation without voting power is a major concern because they're going to be heirs to a large estate. My sister-in-law, her husband, and her brother would inherit a considerable amount of land in south central Nebraska. [LB936]

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SENATOR SCHUMACHER: Well, then just one follow-up question. I take it this land has been in the family a long time. [LB936]

EDWARD GEORGE: A very long time. In my family's case, it's a fourth generation. [LB936]

SENATOR SCHUMACHER: Yeah, so it may have been bought for fifty bucks an acre or less. [LB936]

EDWARD GEORGE: Yes, they bought it in the '40s. [LB936]

SENATOR SCHUMACHER: And now it would sell for \$10,000 an acre. [LB936]

EDWARD GEORGE: \$10,000, yes. [LB936]

SENATOR SCHUMACHER: And if your folks were to sell it today, they would pay income taxes on this, correct? [LB936]

EDWARD GEORGE: Yes, inheritance tax and... [LB936]

SENATOR SCHUMACHER: And income taxes. [LB936]

EDWARD GEORGE: And they'd pay a large amount of income tax. [LB936]

SENATOR SCHUMACHER: Right, based upon the Nebraska tax and the federal tax. [LB936]

EDWARD GEORGE: Yeah. [LB936]

SENATOR SCHUMACHER: Once they die and you kids get it and sell it, you'll pay no tax on it except for the 1 percent. [LB936]

EDWARD GEORGE: Right. But in my...I should mention also my sister-in-law, my brother's wife, both of her parents just died and it's estimated...she has a brother, so there are two heirs to that farming estate. The estate is estimated to be worth between eight and ten million dollars from about an 800 acre farm. My case it's a family farm of 320 acres that dad strove to put that farm together. One other thing that's interesting is that probably some of you are familiar, your county is very fortunate to have excellent water, rainfall, productive soil, so because of that when

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you talk about corporations right now, three major seed corn companies are located in York County: Monsanto, DuPont, which is Pioneer, and Mycogen, and they have helped support that economy immensely. The other thing is that our banker where we bank is an agricultural lending bank, one of the largest in the nation, that years ago that helped us be sustainable as farmers is farm, the farm program. If you farm, the farm program you're very likely to be sustainable if you're a hardworking farmer out on the farm. [LB936]

SENATOR SCHUMACHER: Thank you. [LB936]

EDWARD GEORGE: I'm thrilled to be able to have to speak before you. I see that...I feel like you appreciated my comments and I welcome that opportunity. [LB936]

SENATOR GLOOR: (Exhibits 10-18) Thank you, Mr. George. Appreciate your testimony. I'm going to read into the record proponents. We have letters in front of us from Matt Litt, Americans for Prosperity; Jessica Kolterman, Nebraska Farm Bureau Federation; Robert Hallstrom, National Federation of Independent Business. Opponents: Scott McDonald, Hitchcock County Board of Commissioners; Scott Love, Dakota County Board of Commissioners; Vicki Ensign, Nuckolls County Treasurer; Eldon Orthmann, Adams County Board of Supervisors; Bonnie Vogltance, Cuming County Clerk; and Earl McNutt, Red Willow County Commissioners. And that ends the hearing on LB936. LB925, Senator Harr. [LB936]

SENATOR HARR: (Exhibits 1-2) Chairman Gloor and members of the Revenue Committee, my name is Burke Harr, H-a-r-r. I am from Legislative District 8 located in Douglas County. I come before you on LB925. LB925 is a bill to offer owners of property tax certificates the ability to foreclose one year sooner if they choose. You'll see in your...I'm passing around an amendment that changes it to make it permissive. They can foreclose one year sooner on tax delinquent properties which are deemed to be unoccupied or abandoned. These are not the homes of snowbirds or world travelers that only return to their domicile every now and then. The properties are a must be vacant as defined in the bill and be delinquent on property taxes. The goal is simple. It is to return delinquent properties back to the property tax roll faster. The bill was requested by the city of Omaha, but will benefit the state. The state constitution requires a minimum of two years now. For some reason, a previous legislature has given a three-year redemption period instead of the two. Two years would expedite the properties found to be vacant and abandoned back on the tax rolls. My hope is this bill would be advanced unanimously and I would ask for your support and would take any questions you may have. [LB925]

SENATOR GLOOR: Thank you, Senator Harr. Questions? Senator Schumacher. [LB925]

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SENATOR SCHUMACHER: Thank you, Senator Gloor and thank you, Senator Harr. Is there any reason that you aren't shortening all the property up to the two-year cycle, just the junky property? [LB925]

SENATOR HARR: And the answer is, we could, but what we want to do is really look at where the problem properties are and these are ones that, you know, as you can see where there's vegetation the house is abandoned. And what it does, it affects the property value not just of that one, but the ones surrounding it. And so by getting that off the tax...or foreclosed on and back on the tax roll and probably remediated or taken care of sooner, it helps everybody. [LB925]

SENATOR SCHUMACHER: But part of the reason for the three years was to have some mercy on people coming out of the Depression and got behind on their taxes, and give them a little room before there was a foreclosure sale. And we coupled that with a 14 percent penalty tax or interest on this, what we called a penalty because that's probably what it is. And so if we extended this principle and took everything down to two years, we'd actually be doing those people a favor because in this day and age they can get a loan substantially less than 14 percent and they may not even realize that they're being hooked the 14 percent. So I'm looking for a reason to say, why not take it all to two years? [LB925]

SENATOR HARR: And to answer your question, a lot of times when these happen, banks are the ones who step in, just so you know. We can. I think what we should probably do is do it on a small basis first, see if it works, and work out the bugs before we expand it larger. But that's definitely an option down the road. [LB925]

SENATOR SCHUMACHER: Thank you, Senator. [LB925]

SENATOR GLOOR: Other questions? Senator Davis. [LB925]

SENATOR DAVIS: So if you wouldn't mind, just walk me through the process here. [LB925]

SENATOR HARR: Oh boy, okay. So what happens is you're delinquent on your property taxes a year, okay. Then there's a tax foreclosure sale in the courthouse in Douglas County. It used to be on the first floor. I don't know if it still is. And there are those coming after me that will correct me if I am wrong. And then you have two years and it's collecting 14 percent interest. And then at the end of that two years they haven't paid, then the owner of that note can foreclose on the property, that tax lien certificate. [LB925]

SENATOR DAVIS: So what your bill does is, it eliminates that... [LB925]

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SENATOR HARR: I'm sorry, to three years. What it would take us from three down to two if the property is abandoned. [LB925]

SENATOR DAVIS: If the property is abandoned. How is that determined? [LB925]

SENATOR HARR: It's in the bill. And it is looking at a number of factors, the accumulation...let's see. Overgrown or dead vegetation, including lawns, shrubbery and other plantings; accumulation of abandoned personal property, trash, or waste; visible deterioration or lack of maintenance of any building or structure on the real estate; graffiti or other defacement of any building or structure on the real estate; or any other conditions or circumstances reasonably indicating the real property is not occupied. I actually read my bill. [LB925]

SENATOR DAVIS: But some of those things are somewhat subjective to me, you know, overgrown vegetation, those kind of things. It seems to me it would be obvious if the home wasn't occupied. You send a letter to the home, with a certified letter that said, you need to respond to this. [LB925]

SENATOR HARR: Yeah, and I will tell you (e) probably gives me the most heartburn, but I'll also tell you that looking at property it's apparent to most neighbors which properties are and are not abandoned. You know, I'm more than willing to work with you if you want to have an appeal process too. If so, it says, no, no, no, it's not abandoned. I'm happy to work with you on that. [LB925]

SENATOR DAVIS: So bear with me with this, but when I was campaigning in 2012, there's a home in Alliance that I was absolutely positive it had been empty for years and I know Alliance very well because my family grew up there. But, you know, I knock on the door and the guy answers the door and still lives there. So, I mean, I think you need to make sure you've got protections in place for those situations. [LB925]

SENATOR HARR: Yeah, and I'd be...like I said, be more than willing to work with you because you're right. You know, on one side, we have some senators who want to move all the two years and then, but if we are going to have abandonment at two years, or two years for only abandonment, I think we should have a clear process and if you think this isn't clear enough, again, I'm more than willing to work with you on that. [LB925]

SENATOR DAVIS: Okay. Thank you. [LB925]

SENATOR GLOOR: Senator Scheer. [LB925]

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SENATOR SCHEER: Same thing, Senator. Thank you, Senator Harr. You know it doesn't say more than one of those, it just emulates. [LB925]

SENATOR HARR: Or, yeah. [LB925]

SENATOR SCHEER: And so I do follow Senator Davis, I think. Any one of those may be applicable to a lot of houses that aren't necessarily vacant and, you know, I don't know that looking in and seeing that furniture is still there because it could be vacant and the furniture is still there. It could have been a rental house, guy, or whatever passes away or they leave the community and whoever was the last one to rent it, just left the furniture because they were back in rent and so, you know, it could even look inhabited and not. So I'd be a little bit concerned on how we determine that. [LB925]

SENATOR HARR: And I appreciate that concern. We on the Revenue Committee are very fortunate to have good legal staff and so I'd be more than willing to work with legal counsel to find a solution that is more to address your concerns. [LB925]

SENATOR SCHEER: Fair enough. Thank you. Thanks, Senator Gloor. [LB925]

SENATOR GLOOR: Senator Schumacher. [LB925]

SENATOR SCHUMACHER: Thank you, Senator Gloor. Just one follow up. Now is there provisions or a mechanism for somebody who is holding a tax sale certificate that they purchase thinking it's good for three years, of rake-off of 14 percent, and now they want to foreclose in two years? I mean, do they have to foreclose or can they wait out their three years and hook this guy for the 14 percent? [LB925]

SENATOR HARR: Great question and that's the amendment making it permissive of the "may." [LB925]

SENATOR SCHUMACHER: Make it...? [LB925]

SENATOR HARR: Permissive. If you look at your...the amendment I passed around, it's "may." [LB925]

SENATOR SCHUMACHER: Okay. Thank you. [LB925]

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SENATOR GLOOR: Seeing no further questions, thank you, Senator Harr. [LB925]

SENATOR HARR: Thank you. [LB925]

SENATOR GLOOR: We'll move to proponents for LB925. [LB925]

BEN GRAY: (Exhibit 3) Mr. Chairman and members of the committee, my name is Ben Gray. I live at 4942 Nebraska Avenue in Omaha, Nebraska, 68104. For the record, I'm the president of the Omaha City Council. What is being passed in front of you is a resolution from the City Council that was passed unanimously and also signed by the Mayor in support of LB925. As we look at the problems that continue to exist in our community, and especially in the district that I represent, but also across this state there are properties that are readily identifiable, I think, as abandoned and neglected properties. I will give you an example. I just had a call today from a woman who is elderly. She lives between two homes that have been abandoned and neglected for at least eight years. Right now she is fighting off the possums, the raccoons and the other vermin that continually invade her home. This is not nearly close to the first call that I have gotten and I'm sure that it won't be the last. So this is an opportunity, I think, for us to at least in a measured sort of way look at this particular legislation and provide some means for people, who are situated as the woman that I just talked about, to get some relief. This is a measured approach. There are instances where I have been to a number of different cities across the country where they have a tax period of one year because they recognize the need to address some of these abandoned and neglected properties. In Omaha, right now, we currently have over 600 properties that fall into this particular category. When I speak, I talk about Omaha but I'm really talking about the state because across the state there are a number of cities and towns that are experiencing these same sorts of issues. We have over 600 properties. We are not going to be able to demolish our way out of it. With this particular piece of legislation it would give those tax certificate holders the opportunity, if they chose to, and I'm in support of the amendment that Senator Burke Harr talked about, but I think it would give those tax certificate holders who really want to do something with the property, it would give them a year...it would give them...they would have to not wait the three-year period, they could wait the two-year period, obtain that tax certificate, redeem that tax certificate and get into some of those properties. These properties that we're talking about, in many instances, can be redeemed if they are gotten to in time. And so, I think this is an opportunity for us to take a measured approach to address some of these abandoned properties in a way that will, first of all, allow the city, cities, and communities across the country the opportunity to get into these houses sooner and in many instances be able to save them and bring them back and put them on the tax rolls, bring them back to the tax rolls. It's not going to happen in all cases, but we certainly have a number of properties now that it's going to make it difficult, if impossible, for us to tear them down. We're not going to be able to demolish our way out of this. And as we continue to address properties by either demolishing them or putting them back on the tax rolls, as we take care of some of the properties by demolition today

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currently, we're able to take down somewhere between 60 and 70 homes per year. But keep in mind as we're taking down those 60 or 70 homes per year, there are additional homes that come on to the same situation that makes it almost impossible for us to demolish our way out of it. So I would encourage you all to look at this bill as a first step. It doesn't...this is not what I would describe as a major change. This is a minor change that already exists in the state constitution. This is an opportunity for cities and communities around the state to get a handle on some of these properties that we know for sure are neglected or abandoned and do something with them before we have to demolish them, hopefully, but even if we do, it gives us a period of time that cuts it down a little bit so that we can address them in a more holistic way. Thank you for your attention and your patience and I would be glad to answer any questions that you all might have. [LB925]

SENATOR GLOOR: Thank you, Mr. Gray. Questions? Senator Schumacher and then Senator Scheer. [LB925]

SENATOR SCHUMACHER: Thank you, Senator Gloor, and thank you for your testimony, Councilman Gray. When a property comes up on tax sale... [LB925]

BEN GRAY: Yes. [LB925]

SENATOR SCHUMACHER: ...are there bidders, do they...what...I mean, if a bidder gets it, what do they do with it? [LB925]

BEN GRAY: Well, good question, Senator, and what this Legislature graciously allowed us to do at least in Omaha was to create a land bank. The land bank also has the first right of refusal on any tax sales that come up. They also have the ability to take those properties and do a couple of things with them. They can renovate those properties and put them back on the tax rolls. They can assemble those properties for developers who might be interested in development in certain areas. There are number of things that we can do related to that, so they can redeem those tax certificates. There is with our land bank, we do have a first right of refusal, but we do have other tax certificate holders that as I have talked to them when we were talking about this legislation, a lot of these tax certificate holders would like to get into the properties sooner so that they can do some redevelopment on those properties and get them back on the tax rolls. [LB925]

SENATOR SCHUMACHER: Thank you. [LB925]

SENATOR GLOOR: Senator Scheer. [LB925]

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SENATOR SCHEER: Thank you, Senator Gloor. That's my question. I was going to ask what effect it had on the land bank that you folks had, so you've already answered it. [LB925]

BEN GRAY: Yes. [LB925]

SENATOR SCHEER: Thank you. [LB925]

BEN GRAY: No, thank you for giving us the opportunity to have a land bank. [LB925]

SENATOR GLOOR: Any other questions? Seeing none, thank you, Councilman. [LB925]

BEN GRAY: Thank you. [LB925]

JACK CHELOHA: Good afternoon, Senator Gloor and members of the Revenue Committee. My name is Jack Cheloha. That's J-a-c-k, the last name is spelled C-h-e-l-o-h-a. I'm the lobbyist for the city of Omaha and I'd like to testify in favor of LB925 this afternoon. First, let me thank Senator Harr for introducing this bill on behalf of the city of Omaha and thank you to this committee for listening to us today. Basically we see this bill as a small step in our fight for urban renewal, if you will, in Omaha, and also other communities across the state. I was going to talk a little bit about the land bank, but I'm glad it already came up. So we do have the land bank legislation. Omaha has enacted it by ordinance per the permission of the state Legislature for utilizing that to try and deal with these properties that are delinquent or abandoned, etcetera. Prior to that, in Omaha we had a Land Reutilization Commission and other communities still have those. And always the goal there, if you will, is to try and get these properties back on the tax rolls because if you have a delinquent owner, not only does the city suffer a lack of revenue or the property taxes, but all the other property tax entities as well. The schools would not receive their money, counties, etcetera. It's held for a number of years. As Senator Schumacher pointed out, the penalty is 14 percent which builds up and accumulates annually. So if we could expedite it for now on this limited basis under LB925, I think that would be a good start. We tried...we knew we had to provide a definition of abandoned properties that would work on a statewide basis. If we were going to draft it for Omaha, we could just make reference to city code and say if these properties had code violations, but that's why we felt it was necessary to write the explicit definition on page 3 of what would constitute abandoned property. Let's see. I made a couple of notes here. One other thing that's also important too. If these properties are out there, they're delinquent, they become an attractive nuisance. They become a burden, if you will, to the city and the community. You know, children and games are...may gather there and go in and trespass. Has the hedges and weeds and other things overgrow. The neighbors complain and then the city taxpayers have to go in and abate that and all of this is a time and expense. And so overall, we think this bill would present many positive factors if we could merely expedite it by

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one year. So with that, I'll close and ask for your favorable consideration, and I'll try to answer questions. [LB925]

SENATOR GLOOR: Senator Scheer. [LB925]

SENATOR SCHEER: Thank you, Senator Gloor. Real quick, how does it work for those properties that are not purchased? Would this then allow the city or the land bank, or however, you know, I've got a piece of property but when somebody looks at purchasing, it has no value, so I'm not going to buy the tax statement because it won't even return my cost of the tax, so what happens to those properties? [LB925]

JACK CHELOHA: I think...it's my understanding, I don't deal with that, but it's my understanding they're held as a collective group either by the LRC, the Land Reutilization Commission, or in our case, the land bank, and you would keep them, you hold them, and then eventually you'd hope to commingle it with other properties to make it more to a useful, you know, piece of property. [LB925]

SENATOR SCHEER: Well, I guess I was just...and if you don't know, you don't know. My thought was, does it give the city the opportunity then to...even though they didn't buy the tax lien on it, the ability then to go in earlier to either maybe possibly rehab it rather than demolish it in another two years, on a quicker basis. [LB925]

JACK CHELOHA: Yeah, I don't know Senator. I'm not sure what point the title would actually transfer, so I apologize. [LB925]

SENATOR SCHEER: Thank you, Senator Gloor. [LB925]

SENATOR GLOOR: Seeing no further questions, thank you, Jack. [LB925]

JACK CHELOHA: Thank you. [LB925]

SENATOR GLOOR: Other proponents. [LB925]

GARY KRUMLAND: Senator Gloor, members of the committee, my name is Gary Krumland. That's G-a-r-y K-r-u-m-l-a-n-d. I represent the League of Nebraska Municipalities appearing in support of LB925. Vacant and abandoned property is not just an Omaha or a large city problem. It's a problem all across the state and all sizes of cities and villages. This fall the city of Ansley

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came to us with concerns about their abandoned and vacant property within the community. So anything, any tool that we can have to help the cities and villages deal with it is very important. Over the last several years there have been several bills passed that attempt to approach it. Last year, LB151 was adopted. That's a bill that allowed the city and the bank or the mortgage company that had the mortgage work together to see if they could clean up some of these properties. But one of the problems is with abandoned vacant property, there is just nobody there to, you know, clean up the property or pay for it. Cities do have nuisance authorities and there's been legislation passed the last couple of years to improve that to give cities clear authority over that. I think Senator Davis had a bill a couple of years ago that really helped with that. And a city can send notice to a property owner saying your property is violating the nuisance law. It needs to be cleaned up, either weeds or deteriorating buildings. And then the property owner cleans it up or the city can come in and clean it up and charge the property owner. But if the property is abandoned, there's nobody there to clean it up or to pay for it, so the city ends up paying for it, so all the taxpayers pay for it. So a bill like this which shortens the time for foreclosure is another tool that can be used to help bring the property back to code and to get it back on the tax rolls. So we do support it and it will be helpful to cities across the state. [LB925]

SENATOR GLOOR: Thank you, Mr. Krumland. Senator Schumacher. [LB925]

SENATOR SCHUMACHER: Thank you, Senator Gloor, and thank you for your testimony today. Back in the...I want to say 1980s, there was a procedure that worked just slick, at least in the little towns that I represented, for cleaning up an abandoned building and it was done with the cooperation of the fire marshal. The fire marshal would just issue an order that the wires were bad or whatever and the state then under the fire marshal's umbrella would condemn the property and it was rather quickly...quickly done. And then pretty much abruptly in the early '90-ish time frame, the fire marshal wouldn't do it anymore. What...do you know what went wrong there? [LB925]

GARY KRUMLAND: No, I don't. And that was just before the time I started working with the League, but people kept saying, well, the fire marshal will help and I came on just about the time they had stopped the program, so. [LB925]

SENATOR SCHUMACHER: Okay. Thank you. [LB925]

GARY KRUMLAND: I mean, there is a program right now with the Department of Environmental Quality for deconstruction of these old buildings where they would give a grant, but all material has to be recycled so it adds to the cost. So the grant pretty much covers the cost of these. [LB925]

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SENATOR SCHUMACHER: Well, that was one thing that was working and then suddenly stopped working. [LB925]

GARY KRUMLAND: Yeah. [LB925]

SENATOR SCHUMACHER: Thank you. [LB925]

SENATOR GLOOR: Seeing no further questions, thank you, Gary. Any more proponents? Good afternoon. [LB925]

DEANA WALOCHA: Good afternoon, Senator Gloor, members of the committee. My name is Deana Walocha, D-e-a-n-a W-a-l-o-c-h-a, and I am testifying in favor of this bill and Senator Harr's amendment on behalf of US Assets, LLC, and we are a tax certificate buyer out of Omaha. And I have been with the company for 15 years and done tax foreclosures for 15 years, so I've seen firsthand the problems that these vacant and abandoned properties can cause. I've had cities contact me asking if we could do something as a certificate holder and our hands simply were tied because until that three years was up there was nothing that we could do. We couldn't step in and do anything with the property because we had no rights to it. Our company also works with Habitat for Humanity of Omaha and I know they go through and they specifically target these vacant and abandoned properties and they do rehabilitate them. But as it stands right now, they are also confined to this three-year limit. And a year in the life of one of these properties is a long time and bad, bad things can happen. And it gets to the point sometimes even Habitat can't do anything with them because they just don't have the funds to do that, whereas if they could get at them a little bit earlier, it wouldn't come to that. So for those reasons we are in support of this bill. I think it's a good bill. We supported the vacant and abandoned ordinance in Omaha and I think working together, I think that it will be very good for these properties. And I'm happy to answer any questions, especially about the tax procedure because I do have a little bit of insight in that. [LB925]

SENATOR GLOOR: Are there any questions? There are none. [LB925]

DEANA WALOCHA: Okay. [LB925]

SENATOR GLOOR: (Exhibit 4) Thank you, Ms. Walocha. Are there any more proponents? We'll move to opposition. Are there opponents to this bill? And while they're coming up front, we do have a letter from a proponent: Mike McMeekin, Omaha by Design. [LB925]

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ANDY STEBBING: Thank you, Senator Gloor. Ladies and gentlemen of the Revenue Committee, my name is Andy Stebbing, S-t-e-b-b-i-n-g. I am the Lancaster County Treasurer. I brought with me Candace Meredith, my chief deputy, in case I cannot answer any questions. (Laughter) I think what we have here is an Omaha problem and not so much a Lancaster County or other county problem. I put out an e-mail to all of the other county treasurers and no one seems to have this same issue. I think every town has abandoned homes that are...look beat up and people want to do something with them. Those homes not often have delinquent taxes. I spoke to my county attorney and what we did was went to the city of Lincoln, Building and Safety, and we looked at the city ordinance. For it to be vacant, it also has to be condemned, unlivable, and/or dangerous. If we used that definition by the bill...and I see the reason for the bill and I'm not opposed to it. I'm just opposed to some of the problems with it as written. If we use, by the bill's definition, a local city ordinance, dangerous and condemned and vacant, we have exactly 80 homes in Lincoln, Nebraska, identified as that. With these 80 homes that we looked at, we then ran my latest list of 500 properties that are going to come up for sale in a couple of weeks at the annual sale. There's only five of these on here. Of those five that are delinquent, those people are working with us. It's usually a fire-damaged house, the insurance companies are involved, and I'm just getting them back to pay their taxes. So we have 500 properties coming up for sale. If we use the red-tagged city ordinance of Lincoln, which I'm fine with that, I can overlay these at the tax sale, say we have five properties, I'm good to go with that. However, Lincoln...Lancaster County has 22 towns and villages. They don't have city ordinances linking...Waverly and Hickman does, but the others Rokeby, Davey, Denton do not. So then I'd have to fall back on the city...the bill as defined. I think then I would be sending out my staff, Vicki or Tina or somebody in their Dodge Grand Caravan, to drive by those homes, and as you guys brought up, knock on the door, take some pictures. And I think it puts my staff in harm's way trying to make that subjective determination if it's abandoned or not, does someone live there. So I'm fine with it. I'm opposed only because I think we could clean it up. I compliment Senator Harr. He's been very good to work with. I know he's open to some of these changes. It's a complicated process already and when...I called a staff meeting. We looked this over. We like the way 77-1837 and 77-1902 of the statutes are worked into the bill; 77-1807 details how to conduct a tax sale on the first Monday in March. We'd like to see the language added in there if the committee and Senator Harr would please look at that, and add in there, "we also have for sale vacant homes that are on a two-year certificate." 77-1819 defines exactly how the certificate should read and my office, we follow that to a T. And I think the certificate then should state, "and/or a two-year certificate." 77-1802, 1803, and 1804 describe in detail how to come up with this list in what order, how to publish it in newspapers and so on and so forth. I think those statutes should be amended to also include, "we have now two-year and three-year redemptions based on the definition of vacant." 77-1845 describes how to void a sale; 1847, the county treasurer is liable for all wrongful sales, and 1854 has similar language. I'd ask that Mr. Harr, please consider looking at those, adding the language since we're going to change the initial two statutes. And so what if we did it wrong? What if someone is challenging the red-tag

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definition, they're fighting with the city of Lincoln trying to get it cleaned up, at the same time we sell that and there's a date...there's a procedural problem, I'd like to maybe consider having, the county treasurer is not liable unless there's gross negligence or fraud, and describe that, or maybe even a sentence of two how we can undo it. If someone comes to my office and says, you sold it. I can get this thing rectified. Lincoln red tagged it, but we got that resolved prior to your sale. I'd like a way to undo all this. And say, sure, certified letters everybody involved, it's now three years. I think it's an Omaha more-so problem. Omaha has land banks. Lancaster does not. If the committee would consider maybe making this a statute for Omaha, or the question came up, it was a really good one, let's just go two years on everything. I could call a meeting with all the county treasurers, we could discuss that. That would be in line with other states and that way it's not overcomplicating a complicated process already. Let me think. Oh, I'll let Candace, my chief deputy, follow up if I miss something, but I'm open for questions and I'd ask that the committee either...give us another year to clean it up or we could come back next year with a two-year proposal. Lincoln, I think maybe has a different city ordinance than Omaha because they'll go after you if you have a beat up house with raccoons living in it. They don't require...they don't call me and say, let's go after them for no paying...not paying taxes. I'm sure Lincoln would probably like to have an extra tool in their pocket for it, but of those only five homes apply and we're going to get those resolved before the sale. So I'm open for all questions and thank you for your time. [LB925]

SENATOR GLOOR: Questions? Senator Schumacher. [LB925]

SENATOR SCHUMACHER: Thank you, Senator Gloor. I mean, it seems to me we're trying to back in to solving a problem by using the tax hammer when the problem is broader than the tax thing. It's junky property. [LB925]

ANDY STEBBING: Absolutely. [LB925]

SENATOR SCHUMACHER: And that isn't properly...can...are you aware of any other cities or any other ordinances or mechanisms, apart maybe from the fire marshal that I mentioned earlier, that directly attacks the problem, says, look, if you have a piece of property that meets these criteria then we can do thus and so to it and move it along? [LB925]

ANDY STEBBING: Yes, I think you're right. I think a lot of smaller villages use their village board and just notify people that things need to change immediately. The fire marshal is a good example. I can't...there was a question over here. What happens to these where nobody buys them and the county becomes the owner of those? I can't find any junky old houses out in the county that the county owns. I think what would happen is, people would come in, usually investing their money wanting to earn 14 percent, but if I stand up in front of the room and say

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this is an abandoned house, this isn't a junky house, those are now going to become county owned. No one is going to buy them. To your question, I know of Lincoln moving forward on terrible homes not using the county treasurer. I think they would like to have this in their back pocket but as written, I can't support it. We publish this in the newspaper. And one of the reasons we publish our list is for investors, but we also publish it so the people that are late on their taxes have one last chance to save their property. We put an asterisk and it shows if their property has been...their taxes have been sold the prior year. So I'm trying to figure out a way how to asterisk this and say, by the way, it's vacant. And so that was part of the testimony earlier. But no, other than the village board, the fire marshal, I don't know of any other way that they're moving in on these except Lincoln. [LB925]

SENATOR SCHUMACHER: Thank you. [LB925]

SENATOR GLOOR: Senator Davis. [LB925]

SENATOR DAVIS: Thank you, Senator Gloor. Thank you, Mr. Stebbing. Good testimony. Just want to review a little bit of what you said so that I have an understanding of it. The city of Lincoln does a pretty good job of five homes out of the city. A corps of 80 properties are problem properties, would you call them? [LB925]

ANDY STEBBING: Correct, yes. [LB925]

SENATOR DAVIS: But of those five properties, you say there's a chance that some of those will be rehabilitated by their owners, correct? [LB925]

ANDY STEBBING: That's correct. [LB925]

SENATOR DAVIS: And I think you mentioned fire. Are there other reasons that go with that? [LB925]

ANDY STEBBING: Yes, code violations. The stairways up to the back deck are gone, the water heater, stuff like that, yes. [LB925]

SENATOR DAVIS: Okay. Now in the villages, it would be up to you to make the determination. [LB925]

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ANDY STEBBING: That's absolutely right, yes. Hickman and Waverly have ordinances. The others do not, so we would fall back on LB925 language. I would probably end up going out, looking and knocking on the door, taking some pictures, looking around making sure I have the evidence to deem it as abandoned. So you're right. [LB925]

SENATOR DAVIS: So are you going to have to put more staff on to do that? [LB925]

ANDY STEBBING: Yes, we've talked about that at the staff meeting. I talked to the county board about this. I would...I feel uneasy about sending out my staff on these homes. I would do it myself being ex-law enforcement, but to answer your question, it would definitely cost more money to determine which homes are abandoned and vacant and which ones are not. It brings another question. My county attorney said, well, you should use the red-tag language for Lincoln or LB925 language, not either of one. If you're going to call it red tag, that's good, fine. If someone comes forward and says my neighbor died, it's vacant, I want to buy that, well, it's not red tagged, sir, well, please, I'd like to get my hands on it. Well, we'd have to revert over to the LB925 language. It gets a little bit dicey. So, to answer your question, it would cost more money and I don't have a detailed amount yet on what it would cost. [LB925]

SENATOR DAVIS: Okay. Now are there going to be homes in the county proper that aren't within a incorporated area that are going to be affected? [LB925]

ANDY STEBBING: That's a good question. We spoke about that the other day. How many farm houses, rural areas without a village around, I don't...I'll let Candace testify. I don't think there's any involved at this time. [LB925]

SENATOR DAVIS: But it doesn't mean there wouldn't be at some point. [LB925]

ANDY STEBBING: Could be, yes. Could be, yes. [LB925]

SENATOR DAVIS: Okay. Great. Thank you. [LB925]

SENATOR GLOOR: Seeing no further questions, thank you for your testimony. [LB925]

ANDY STEBBING: Thank you so much for your time, guys. [LB925]

SENATOR GLOOR: Continuing with opposition. [LB925]

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ANDY STEBBING: She said I covered everything. [LB925]

SENATOR GLOOR: Okay. Anyone else in opposition? Anyone in a neutral capacity? [LB925]

BETH BAZYN FERRELL: Good afternoon, Chairman Gloor and members of the committee. For the record my name is Beth, B-e-t-h, Bazyn, B-a-z-y-n, Ferrell, F-e-r-r-e-l-l. I'm with the Nebraska Association of County Officials. I'm appearing here neutral on this bill because when our board reviewed the bill, there was a lot of support for, yes, let's try and get these properties back on the tax rolls. If they're problem properties, let's try and come up with a solution to get them back on the tax rolls, but there were also a lot of questions about how to administer the bill as it's drafted. And I think you've heard those today. Senator Davis, you had some questions about them, the list being subjective. Senator Schumacher, you raised some issues, Senator Scheer as well. So, I think our concern is really the administrative issues that Treasurer Stebbing talked about. We'd be happy to work with the committee and the other parties to try to come up with some solution to this. I know our treasurers are always concerned about tax sales and the process because it is complicated and it's something that we'd be happy to work on. I'd be happy to take questions. [LB925]

SENATOR GLOOR: Questions? Seeing none, thank you, Beth. Anyone else in a neutral capacity? I see no one. Senator Harr, you're recognized to close. [LB925]

SENATOR HARR: Thank you, Chairman Gloor, members of the Revenue Committee. I appreciated the testimony of the people taking time out of their busy schedules to come down here and testify on behalf of LB925. I like what it does. I think it has a good basis. Obviously, like most of our bills, it has some room for improvement. I will work to tighten the language on this either this year or possibly bring it back next year, but I want to thank you for your time. [LB925]

SENATOR GLOOR: Any final questions for Senator Harr? Seeing none, thank you. [LB925]

SENATOR HARR: Thank you. [LB925]

SENATOR GLOOR: And that will end the hearing on LB925. We move to LB995. Senator Davis. [LB925]

SENATOR DAVIS: Good afternoon, Chairman Gloor, members of the Revenue Committee. I am Senator Al Davis, District 43. That's A-l D-a-v-i-s. I'm before you today to ask for your support in advancement of LB995. Former Senator Bob Wickersham brought the substance of this bill to

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my attention at the end of last year. It deals with agricultural and horticultural land valuation and repeals the special valuation process. It is an important piece of legislation that cleans up language and makes an important policy clarification. Historically, special value was adopted to allow some agricultural land and horticultural land to be assessed and its value for agricultural and horticultural uses. This was at a time of encroaching urban development trends and so accompanying this special value concept with tools of recapturing county zoning. These two are in play today, but LB995 is necessary to clarify that agricultural value means the actual value of land for agricultural and horticultural purposes. Any other use can be accessed and challenged through the regular assessment and protest channels. In that way, the process of special valuation is eliminated while the definition of special value is retained. One final change is to simply cleanup some confusion around the approval process for easements on agricultural and horticultural lands pursuant to the Conservation and Preservation Easement Act. In summary, LB995 amends certain law...current law so that the definition of agricultural value is the actual value of land for agricultural purposes or use without regard to the actual value of the land would have for other purposes or uses. It repeals the process of special valuation and in this manner, LB995 allows assessors to continue to do their jobs without having to maintain a separate system for lands with a special value. It eliminates a process that duplicates the current assessment and protest system and finally for this body, it reaffirms that as a matter of public policy that all agricultural and horticultural land should be valued based on its agricultural and horticultural use and at 75 percent of that value. I would be happy to answer any questions but Senator Wickersham will follow me. He's very well-versed in this issue and I think can explain it to you in a far better manner than I can because it is fairly technical. I would ask that you give him enough time to do that. [LB995]

SENATOR GLOOR: Any questions at this point in time for Senator Davis? Seeing none, we'll move to proponents. [LB995]

BOB WICKERSHAM: (Exhibit 1) Senator Gloor and members of the committee, for the record my name is Bob Wickersham. I'm appearing in support of LB995 and my thanks to Senator Davis for introducing the bill. As Senator Davis indicated, the issue concerns special value and it's application to some agricultural and horticultural land. And I'll emphasize as some agricultural and horticultural land because if you have ag land within the limits of a municipality, it's not eligible for special valuation. It's just one of the tricky little things about special value that I think legitimately the Legislature can do away with. But there are other tricky aspects of special value and we'll talk about those because I think you can do away with those also and simply as a matter of policy, as Senator Davis indicated, have ag land as defined by the Legislature valued for tax purposes on its agricultural or horticultural uses. That's provided for in the constitution. That provision has been there since 1972. As Senator Davis indicated, the original purpose of that amendment was to provide for a policy that was generically referred to as greenbelt. It was a problem then around municipalities that were growing. You had ag land on the boundaries that

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had development potential and oftentimes the value that could be placed on that property, the actual value, was...had the potential for creating a tax burden and causing untimely sales of property for development purposes. So the constitution was amended, legislation was enacted, and there was developed special value in particular for that land around municipalities. And that special value was the value for ag purposes only. You know, when that happened, what I hope you keep in mind is that you all of a sudden had two value standards. Two value standards for ag land. One is actual value that includes all uses. If it's rec potential, if it's development potential, whatever it is, actual value is all uses. Special value as described in the constitution is the value only for agricultural uses or purposes. It's usually less, although sometimes it's the same. And that causes confusion and that happens in some states...or in some counties. If you look at the handout, the last page of the handout is an actual assessment notice from a county and you'll see that the, quote, regular value and the special value are the same. So there's been a large amount of process, a large amount of valuation for absolutely no results. Not necessary, in my opinion. Now, how do you get to the point where your land is eligible for special valuation. Let's go through what I hope isn't an atypical scenario. You have acquired property and let's say maybe you paid four or five times what the assessed value was. It's land along a river. The assessor sees the sale and the immediate question in the assessor's mind is whether or not that is really ag land, or has only value for ag purposes, or does it have value for recreational purposes? They perhaps...the assessor perhaps classifies the land as rec land and sends on June 1 a tax notice. It's much higher than the ag value, but you got a notice and you got to do something about it. There are two things that you can do and if I was your attorney, you would do both of them. One, maybe Senator Schumacher maybe wouldn't give this advice to your clients, (laughter) but I do it to mine. I file two things. One, I'd file a protest of the value that was given to me as rec land, because it might be rec land, but I don't like that value so I've got to file a protest. The second thing I do, and attached to the handout is a special value application. I'd file a special value application because maybe I can get the assessor to agree that it is special value land as I'm using it for ag land purposes, it has the potential for other value, but it's going to get special value. I can appeal the assessor's determination of that issue if I don't like it. I can appeal that to the county board. I can appeal that to the TERC. I can eventually have a determination of that issue. Is it eligible for special valuation? That still leaves open the issue of what the value is. And guess what? As soon as somebody tells me a special value and they give me a special value notice, I can protest and appeal that. You have really the opportunity to wipe all that out and just make one unified system. I get my notice. It has a value I don't like, I protest to the county board. And if the value standard is that if it's ag land, and you have to make that initial determination no matter what, is it ag land, then you value it as ag land and you're done. So the bill does that. Maybe looks a little bit complicated, but it isn't. It simply provides one value standard, one value standard for agricultural and horticultural land and it is the value standard that is currently expressed as special value. In other words, the value only for agricultural or horticultural uses and purposes. You don't need two systems. You don't need the confusion. You don't need the kind of peculiar results that you can see in the assessment notice that I've attached to the

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handout. You wouldn't get that. You don't have to explain it. I think it's a much better approach and again I would assert that as a matter of policy for the Legislature simply to say that if it's ag land, and it still has to meet the statutory definition, if it's ag land, it's going to be valued for its ag uses, pure and simple. Now there's a lot more in the handout. There's come description of the background, the various iterations of legislation that have affected the original greenbelt proposal and I hope you'll take time to read that. Anyway, Senator Gloor, I know my time is up. I'd be happy to try to respond to questions. [LB995]

SENATOR GLOOR: Thank you, Senator Wickersham. Questions from any of the committee members? Senator Harr. [LB995]

SENATOR HARR: Thank you. And thanks for coming all the way in to talk. Does this, because you know you look at this and I can never tell, do we eliminate the whole...if this bill were to pass, the whole greenbelt system I'll call it, would that be eliminated or would we have redundancy? [LB995]

BOB WICKERSHAM: It would be eliminated. [LB995]

SENATOR HARR: Okay. And where is that in the bill? [LB995]

BOB WICKERSHAM: Well, there are various sections repealed. It would be in the repealer, Senator. There are various places where you can see language that repeals the use of the word special valuation, but there are a whole series of sections that deal simply with the special value application process, the ability to protest, the assessor's determination. Those go to... [LB995]

SENATOR HARR: Yeah, we can talk about that. Yeah, I don't want to...I'm not going to put you on the spot, I just...I don't... [LB995]

BOB WICKERSHAM: No, no, sir. Yes, sir. [LB995]

SENATOR HARR: Okay. And then so, I guess my next question is, we eliminate this, do we...we wouldn't be required to use, say, the income and/or comparable sales, it would be just like every other preferable to use comparable sales, but if not, you can use others? [LB995]

BOB WICKERSHAM: Yes, sir. [LB995]

SENATOR HARR: Okay. [LB995]

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BOB WICKERSHAM: It doesn't affect how you determine agricultural value and that can be done by any of the standard appraisal techniques. It doesn't affect that at all. [LB995]

SENATOR HARR: Okay. [LB995]

BOB WICKERSHAM: And in fact in 99...I'm going to make a...well over 90 percent of the agricultural land in Nebraska is valued at its actual value, but its actual value is also its ag value. There isn't value for any other use. [LB995]

SENATOR HARR: Okay. Great. Thank you. [LB995]

BOB WICKERSHAM: It's...it has become odd in my opinion. [LB995]

SENATOR HARR: How does this affect conservation easements and all that? [LB995]

BOB WICKERSHAM: It doesn't affect conservation easements although conservation easements are another one of the tweaks that you have in special value. Land within a municipal boundary is not eligible for special value unless it is subject to a conservation easement. Now, if you can think that through and say it three times rapidly, you've grasped a concept. Now, ag land on the other hand, the definition of ag land includes as one of the uses, land that is subject to a conservation easement, but ag land inside a municipality does not have to be subject to a conservation easement to qualify as ag land. It's odd. (Laughter) And Senators, I really think that this bill gives you an opportunity to clear up what I view as some inconsistencies and peculiarities and what can be really a rather complicated process so that it does not have to be complicated if you simply decide that ag land is going to be valued as ag land. [LB995]

SENATOR HARR: Great. Thank you. [LB995]

SENATOR GLOOR: Senator Sullivan. [LB995]

SENATOR SULLIVAN: Thank you, Senator Gloor, and thank you, Senator Wickersham. This can be confusing. I'm...it's clear why Senator Davis wanted you to field all the questions. (Laughter) But if there was a reason to have it previously because of greenbelt situations, we still have those situations, so why do you want to get rid of it? [LB995]

BOB WICKERSHAM: Okay. That is a bit of history and if you'll indulge me just a moment. In 1972, as I said, the constitution was amended to address a problem largely around municipalities

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for development. All right. In 1974, the first legislation was adopted to implement the constitutional amendment. All right. Now, that legislation imposed four conditions on the use of what came to be known as special value. And it was in keeping with the purpose. One, the land had to be zoned for agricultural use. Now zoning played a couple of roles in that piece of legislation because if the use changed, you had recapture tax. And zoning was one way to determine if there was a change in use. Because if it was zoned ag, and all of a sudden you wanted to develop it for housing, you had to file an application and the assessor knew that you were changing the use or proposing to change the use, and might impose the recapture tax. All right. Now, the recapture tax was another component of the policy because there was a perception that there was a benefit. You were conferring a benefit on a specific class of taxpayers. And there was a perception that if you changed the use...and remember, because it was to kind of mitigate the potential for un...or hurried sales of property. So if you're allowed to hang on to...if you're allowed to keep property over an extended period of time and pay lower rates of tax, there was a perception that when it was sold and you realized the value that some of that tax should be recaptured. You got the benefit, other taxpayers that had to make up for your benefit, you sell the property, you have the cash, shouldn't you get some of that benefit back for the other taxpayers. And that was the policy. You got back four years of recapture tax, plus interest. All right. Now, there was another component in that you had to have an application and it was appropriate that you had to have an application because the taxpayer that wanted to have special value applied to their land was going to have both benefits and burdens. The benefit in potential lower taxes for some period of time, but also the potential for recaptured tax with interest if they sold the property or changed the use. So it was a management decision for a taxpayer to decide whether or not to do that. And then, of course, the fourth requirement was that it be ag land. I mean, it be used for ag purposes. Okay. So with those four conditions in mind, we went forward for 24...22 years...32 years, I'm sorry. Have to get my math straightened out. Thirty-two years we went with those four conditions in various states in place. So, everything made sense. But in 2006, the Legislature took away two of the conditions. The land no longer had to be zoned, nobody cared about that, and the recapture tax was removed. So there was no penalty. There was only benefit left. But here you had an...in my mind, an anomalous situation where somebody had to apply for a benefit. That is potentially lower taxes. Why would you have to apply for a benefit? Now, the requirement that it be ag land was still there so you still got to make that fundamental decision, but that's always a fundamental decision for an assessor whether it's for special value or just...or regular valuation purposes what kind of property...what are the primary uses of that property. So, in 2006, really, the rationale for maintaining a separate assessment system just disappeared, in my opinion. And I would hope that you'll agree... [LB995]

SENATOR SULLIVAN: Thank you. [LB995]

BOB WICKERSHAM: ...but it just disappeared. [LB995]

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SENATOR SULLIVAN: Thank you for that explanation. [LB995]

SENATOR GLOOR: Senator Schumacher. [LB995]

SENATOR SCHUMACHER: Thank you, Senator Gloor, and thank you, Senator Wickersham. What's your anticipation of the impact on county revenues from this? [LB995]

BOB WICKERSHAM: None. [LB995]

SENATOR SCHUMACHER: Neutral. [LB995]

BOB WICKERSHAM: None. I think the fiscal note reflects that. None. There might be a very small impact. As I've noted there are some...there are some parcels of agricultural and horticultural land located within municipal boundaries. I've probably seen like a cornfield or alfalfa field or something inside of town and it looks odd and it is kind of odd, but it's probably classified in tax as ag land. Now, as long as it's inside the municipal boundaries, it can be ag land, but it's going to be taxed at 75 percent of its actual value. But if it's not eligible for special valuation--remember that little trick--that land can be ag land, but it's not eligible for special valuation. [LB995]

SENATOR SCHUMACHER: Okay. Thank you. [LB995]

BOB WICKERSHAM: And so it's 75 percent of actual value and if the bill passes as drafted, that would become ag land--it already is ag land--but it would be taxed at 75 percent of its agricultural value. Now, if you didn't like that result, you can change that so that it wasn't ag land or it was taxed at some other value, but I...it's such a rare occurrence that I can't imagine that that would matter to anybody. [LB995]

SENATOR SCHUMACHER: Thank you. [LB995]

BOB WICKERSHAM: Except it clears up a, what I think is just an anomalous and peculiar little hitch in the assessment system. [LB995]

SENATOR SCHUMACHER: Good. [LB995]

SENATOR GLOOR: Any further questions? Thank you, Senator Wickersham. Very educational and informational as you... [LB995]

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BOB WICKERSHAM: Well, and it isn't too awfully late in the afternoon, so. (Laughter) Okay, thank you. [LB995]

SENATOR GLOOR: Thank you. We continue with proponents for this bill. [LB995]

JAREL VINDUSKA: Senator Gloor, members of the Revenue Committee, once again I'm Jarel Vinduska, J-a-r-e-l V-i-n-d-u-s-k-a. I'm here in support of LB995 and I thank Senator Davis for bringing this bill forward. I agreed with most of what Mr. Wickersham just testified on. And I guess the reason I'm here is the same reason I was here on LB936. Philosophically, I believe that regulations and statutes and laws should be made with a goal, the main goal of equal treatment under the law. So let me give you a scenario of what this bill would improve on. When we started getting involved with special assessment in 2009, our farm, a half section in Sarpy County, 320 acres, the ag value was approximately \$2,000 an acre at that time in 2009. It's rough land along the bluffs along the Platte there. And not prime farmland, but anyway at that time during that year the actual market value, because of development pressure, was about \$6,000 an acre. So, since we signed up for special assessment, we were able to get assessed at the \$2,000 level. Had we procrastinated and not done that, we would have been assessed at \$6,000 level. So in my mind, I mean we all know that how much tax you pay is the degree of how ignorant you are as to the law and the loopholes that are available to you, so, so...(laughter) but that isn't the way it should be. We should still make the law so that the outcome is more uniform for people. And so in that regard, this bill takes care of that. Another thing is, as Mr. Wickersham pointed out, if your farm happens to be annexed within the city limits under the existing rules, you can't get special assessment. So for all practical purposes you now give government the power to push you off the land and that's happened in Sarpy County just this last year with a piece of property. And I don't think that's right. I don't think you should ever tax a person beyond the ability of the farm to produce tax revenue. That just isn't the way our country should work. An improvement that I hope you will consider doing for LB995, the part that I...one thing I disagreed a little bit with Mr. Wickersham is that even though he's right that this does simplify it, we still have a complicated situation. We still exclude the farm home site and the farm...other site acres associated with the farmstead. And to me that doesn't make sense. The whole farm should be classified as agricultural, horticultural land. It doesn't make sense to ex off a cow lot or even the area around a building where you keep your equipment, and that sort of thing, or your windbreak for the farm. That it...where we've left a very complicated thing by excluding these farm site acres, so what needs to be done to correct that on page 6 of the bill where they put the definition of agricultural and horticultural land where it says, number one, agricultural land and horticultural land means a parcel of land excluding land associated with buildings and enclosed structures. We can fix that easily just by putting "including" in that spot. And the reason that's...a second reason why that's important further and above the fairness issue, is if we don't do that, it's going to be in conflict with LB1097...or LB1037, which is the next bill we're going to discuss. In that bill our goal is to include that area, the farm site and home site acres. So we need to get

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"including" there so that it's in harmony with the next bill. And I can give you an example of why that is so important. I'm looking, close in time, but for instance in Sarpy County, this land on our farm where the actual market value was \$6,000 an acre, our assessor put that at \$60,000, ten thousand dollars more than the actual value of an acre on that parcel of land, calling it contributory value. So as a result, we get stuck for the last seven years with an extra thousand dollars a year in property tax that shouldn't be. But...I see I'm getting close to the end. I'll continue the story on the next bill probably, unless you want me to finish it right now. How much time do you get when it's yellow? [LB995]

SENATOR GLOOR: You've got a minute, probably 40 seconds. [LB995]

JAREL VINDUSKA: Okay. Okay. And the reason this is important to get that farm sites on as agricultural land, there's no way we're supposed to use comparable sales as the way to identify with the assessed value is. That's the preferred method. There is no comparable sale to an acre that's as part of a farm. It doesn't exist because when a farm sells, you don't parse out what the home site acre sells for. So, therefore, there's no way of telling whatsoever for anybody. You can take it to the TERC and in fact Mr. Wickersham will verify I'm sure, that the TERC has spent untold hundreds of hours trying to come to a conclusion on this. In fact, my first time there I spent three and a half hours talking to Mr. Wickersham. He's sitting there. And there's no way the taxpayer can win because the burden of proof is on the taxpayer. I have to come up with a comparable sale that shows that a acre isn't worth \$60,000. Well, I can't come up with a comparable sale for an acre that sells on a farm because there is no record put for that. So, I automatically lose. And yet, over and over, we go back to the TERC, or we could fix it so easily by putting "including" here and then passing LB1037. Thank you. [LB995]

SENATOR GLOOR: Thank you. Are there questions? Seeing none, thank you. Continuing with proponents. We'll move to opponents for this bill. Good afternoon. [LB995]

BRIAN McALLISTER: Good afternoon and thank you for...excuse me, thank you for allowing me to be here. My name is Brian McAllister. Brian, B-r-i-a-n, McAllister, M-c-A-l-l-i-s-t-e-r. I stand opposed to this legislation. One of the key things I understand the valuation, the special valuation, the old greenbelt way, and I understand the process as it is right now. My question is, what's going to be there...what's going to be in place to keep my county assessor from basically determining whatever value he wants to put the ag land value at, because if you take the special valuation away, that's where the impact is going to be. Right now, my wife and I own 40 acres on the east edge of Lincoln. We're a mile away from the Cass County line. The valuation difference is a mile away or it's...you just have to scratch your head and wonder why that is. Why it is that? Well, with the special valuation in place, what they do is they use several counties surrounding Lancaster County because Lancaster County, and this year too, is considered to be...considered

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to be influenced by other outside sources. So they go outside the county to determine their ag land value. Twice in the last two years, we have had...we have had the opportunity for the state property tax administrator to review those valuations that Lancaster County put in. Twice they came back and adjusted those valuations. I'll agree they went up, but yet there was somebody there to look. There was somebody there watching. If we take this...if we take this special valuation process away, I guess my question, what's in place to verify that we're actually being valued...the agricultural land value that we need to have. There's no longer recapture value. That went away a long time ago. And one of the notes I made, the requirements. They'll set requirements in place as to who qualifies as agricultural land. Who is going to determine that? Right now, it's determined under this...under the special valuation. You put in your application, there's criteria there that you've got to meet. You take that away, who is it then that's going to determine whether you qualify or not? And then, how do you fight that? And I think all of you know that if you fight it through the protest process, it's three years later before you might get an answer, and I know that. I'm just standing opposed to this. Taking this out in this manner is very concerning. I will be talking a little bit more on the next bill, but I just wanted to state my case on this one. [LB995]

SENATOR GLOOR: Thank you, Mr. McAllister. Questions? Don't see any right now. Thank you. Others in opposition. No more in opposition. Anyone in a neutral capacity? [LB995]

TOM PLACZEK: Good afternoon, Chairman Gloor and members of the Revenue Committee. My name is Tom Placzek, T-o-m P-l-a-c-z-e-k. I'm the Platte County Assessor and I am also a representative of the Nebraska Association of County Assessors to NACO. I am testifying as neutral on this bill. I guess I'll start this way. It says we as assessors realize that by eliminating the special valuation application it doesn't really change our ultimate task of determining ag or nonag valuation of any parcel. And in most cases, people agree that any cleanup of bills in language is usually, generally a good thing. My hesitancy is like the gentleman that just testified in opposition, we've had this application process now for a number of years. It has worked really, really well at least as far as I know in Platte County. We don't have any of the...like Sarpy and Lancaster and Douglas County, we have one of the urban and rural...beating up on each other in determining valuation. Ours is what we would call rec ground along the river. What the application process has allowed us to do is we sent letters to all those people along the river just to determine what is the use of this property. If it is owned by XYZ Corp, and we say, man, this is probably rec ground. Well, they can either provide a lease that shows that they are allowing, you know, to be grazed, if there's some grazing in that area or not, and we'll determine whether it's actually being used for ag purposes. Having done that, we haven't had an application now. Let's see, I've been an assessor now for going on my five years. We haven't had an application since. We have no changes in value, ownership along there, so I'm looking at it as like, okay, I understand where Senator Wickersham and Senator Davis are coming from. From my, and from other assessors that I've talked to, said, you know, it's kind of not broken and so we're not...no

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need to really fix it, but I understand cleanup. So in land there's a lot of counties, I'd probably, more than you'd even know, that have no special valuation at all. They either don't have much in the way of rivers or rec ground or they certainly don't have the urban influence. So, we're neutral on this. The current application process does give us some documentation and some information about that property how it's used. We see value in that. I guess that's how I will leave it. I'll entertain any questions that you may or may not...may have. [LB995]

SENATOR GLOOR: Questions for Mr. Placzek. Seeing none, thank you. [LB995]

TOM PLACZEK: Thank you very much. [LB995]

SENATOR GLOOR: Anyone else in a neutral capacity? [LB995]

EDWARD GEORGE: Greetings again. [LB995]

SENATOR GLOOR: Greetings again. [LB995]

EDWARD GEORGE: I want to thank you again for the few moments I have to speak. You're here, I could spend hours and hours talking to you about the issues that we...are a major concern. My name is Edward George, Edward, E-d-w-a-r-d, George, G-e-o-r-g-e. Think about land valuations that I shared with you earlier with my parents and my grandfather buying \$50 an acre land in York County in a rural area setting that's now worth over \$10,000 an acre. I reflected on the whole taxation system. One of my major interests as a retired person, but not tired, as I thought about what I could do to help Nebraska's economy. And I looked to the natural resources and I looked at our youth. I hope you're all aware of what FFA represents to the state of Nebraska as to the future of our economy. FFA was known as the agricultural youth education programs that is gaining tremendous interest. So, in an effort of 900 hours, I wrote a grant on behalf of the FFA program to helping students to understand their land use, land productivity in their school districts. As a result of that, the Nebraska Environmental Trust we were fortunate that without any matching funds to get a \$200,000 soils grant. With that the students had curriculum, a self-testing kit, ways of assessing their land productively. Then we started thinking about everywhere from Scottsbluff to Cedar Rapids to McCook to York to Falls City to Newcastle, what would the land capability and how the land was used. Another thing that was of interest to me as my career evolved after I left extension work, I had put up about 400 irrigation center pivots. But I realized what we were doing, we were mining the water, we were improving the productivity of the land with more grain coming from that land, land that was capable of dryland producing roughly now about 120-130 bushel per acre, depending on where you're located, to well over 200 bushel per acre. And what did that mean as I put those center pivots on? My parents put a new irrigation well because of the concern about not being able to get an

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irrigation well through our natural resources districts. So they invested tens of thousands dollars to put irrigation well down, plus they invested well over \$60,000 for an irrigation center pivot. But what did that do to the property taxation? So, dad and mom, well, you know, felt like for the future mining the water was not good, but they needed to assure that future generations would use the water efficiency and properly was the best avenue for us. Most recently probably some of you saw what happened in Webster County with a multi-10,000-plus property and land that was sold in Kansas and Nebraska. And that irrigated land brought in excess of \$6,000 an acre, which if it had been located in York County probably would have brought in excess of \$10,000. I appreciated the assessor's comments because we could buy land in adjoining county that would be considerably less...taxed less, and I think about what happens to that stress that these assessors have to face when they're looking at how every acre of land on say an 80-acre field or 160-acre field should be considered. And it's amazing what our youngsters learned through that FFA curriculum. Why were they deprived or had the opportunity for the quality of education they have. So the revenue coming in from the farm supporting the school districts for communities was vitally important. And I think that this is really a major concern that as again my father thinks about all this, the taxation that he's facing. I don't know if there's an easy answer to this, but I think that one of the things I look at, too, is how do we help young people thinking about getting into agriculture and horticulture production, food production systems, looking at flowers and gardening and those kinds of things being an avenue? York has a large development project going on that's annexing irrigated land and it jumps from \$10,000 to \$15,000 an acre to multiples of \$30,000, \$40,000, \$50,000 an acre. Boy, that's hard to challenge when you're trying to make a living from that grain you produce on that farm based on the district in our county. Any other thoughts or comments? I look forward to hearing some robust discussion coming out of this committee be coming before the floor debate. [LB995]

SENATOR GLOOR: Any questions for Mr. George? Senator Schumacher. [LB995]

SENATOR SCHUMACHER: Thank you, Senator Gloor. Just one short question. When your folks put down the irrigation well, (inaudible), what's your perception of who owns that water that's coming up through that well? [LB995]

EDWARD GEORGE: (Laugh) Living in Nebraska? [LB995]

SENATOR SCHUMACHER: Yeah, I mean, who owns it? [LB995]

EDWARD GEORGE: We own the land above. Who owns the water that...well too, on top of that land. Who owns the water below that land? So if the water in the Republican River flowing into Kansas with a compact was a major concern as mentioned earlier, the Webster County land...the market value of irrigated land is tremendously higher in productivity and profitability than that

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dryland piece of ground. I know a farmer that's faced with that thing. I suggest that conservation methods are very, very important. We no-till farm. We at one time overapplied water. We're using water more conservatively. My brother is a farmer, he's farming that family land. I would like to think that in the future our water will be sustainable. I think there's tremendous initiatives by various organizations, NRD districts, extension offices, property owners and land owners that we could make this sustainable, but there's no reason to mine the water. [LB995]

SENATOR SCHUMACHER: Would it surprise you if you learned you did not own that water? [LB995]

EDWARD GEORGE: What? [LB995]

SENATOR SCHUMACHER: Would it surprise you if you learned that you did not own that water? [LB995]

EDWARD GEORGE: That's why I asked the question in Nebraska. We have other states viewing it differently. [LB995]

SENATOR SCHUMACHER: Thank you. [LB995]

SENATOR GLOOR: Seeing no other questions, thank you, Mr. George, for your testimony. Anyone else in a neutral capacity on this bill? Seeing none, Senator, you're recognized to close. [LB995]

SENATOR DAVIS: Thank you, Senator Gloor. Well, I told you we'd have some fun with that bill and you did. Only someone who has served on the TERC board and was as well-versed in the law as Senator Wickersham could really explain it in a way that is understandable, but I think he made it to me very obvious why this change should and could take place. First of all with regards to the opponent's testimony, and I'm sorry I didn't get his name, there are seven counties that are using what is known as special value today for all their property sales. So, Lancaster is one. Cass, Douglas, Sarpy, Washington--Senator Wickersham couldn't think of the other two--so taking the special value out of this bill is not going to change anyone's ag valuation because they're already using that tool, because every land sale that's perceived to have...in Lancaster County will have some development potential. So it really would be up to the assessor. Remember what we're doing is we're eliminating a benefit in some respects that you have to apply for through the document which is kind of crazy in light of the fact that we struck two of the reasons for the bill being there. As to whether the residents...the land under the residents should be included or excluded, I have no opinion on that and I think we need to look at that

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closely before we would consider amending that into the bill to make sure we're not doing something that we don't want to do. Mr. Placzek's testimony was good. He did say we haven't used this for five years. He also said we...if it's XYZ corporation that comes in to buy this property, we'll go down and figure out what they're doing with it, which they already can do and should do. And with the 521 form that is required, if there's a land use change, that is indicated...that should be indicated on that form. So I think there's a compelling reason to eliminate this special value piece in the law and I think it will make it easier for the assessors in the long run. You heard Mr. Placzek say, very rarely used across Nebraska. Thank you. [LB995]

SENATOR GLOOR: Thank you, Senator Davis. Any final questions? Senator Scheer. [LB995]

SENATOR SCHEER: Thank you, Senator Gloor. And Senator Davis, I apologize because I was gone, so I didn't hear your opening and most of Mr. Wickersham's comments. I'm just...what, what if you said on page 14, if you've got it, line 29 where you're changing market to agricultural value, can you just give me a synopsis of why that would take place and what the intent or what you're doing that for? [LB995]

SENATOR DAVIS: Okay. Let me read this statute here first, Senator Scheer. [LB995]

SENATOR SCHEER: Okay. [LB995]

SENATOR DAVIS: So the market value would be...we talk about these counties, this would be my interpretation. But these counties that are using a different valuation process because of their developmental potential, and you'd have to apply for the special use in those, you know, for that, so by putting the word "agricultural" in there we're just standardizing things and saying this is how we're going to value it. They are agricultural properties. Remember that in an incorporated area, special value does not apply, only agricultural. [LB995]

SENATOR SCHEER: Okay. Thank you. Thank you, Senator Gloor. [LB995]

SENATOR GLOOR: Thank you, Senator Davis. [LB995]

SENATOR DAVIS: Thank you. [LB995]

SENATOR GLOOR: (Exhibits 2 and 3) Let me read into the record on LB995, proponents: Rod Hollman who farms in Martell, Nebraska. And in a neutral capacity: Diane Battiato, Douglas County Assessor/Register of Deeds. And that will end the hearing on LB995. We'll move to

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LB1037. Senator Brasch, welcome to your committee. While she's coming up...well, I'll wait to read in proponents and opponents. [LB995]

SENATOR BRASCH: And it is good to be before our committee today, and thank you, Chairman Gloor and fellow members. And I am here to introduce LB1037. This bill was brought to me by the Revenue Department with policy research and it addresses and helps resolve increasing valuations that are specific to farm sites and farm home sites due to nonagricultural housing development around farmsteads. What LB1037 will not do is change the fact that farm homes, the residence, the dwellings, and any other enclosed structures on the farm site, they will be continued to be valued at 100 percent of their market value as it is now. It will stay the same. But what LB1037 makes the following changes to Nebraska Revised Statute, 77-1359, is this: First, it redefines agricultural and horticultural land to mean a parcel of land that excludes buildings or enclosed structures located on the parcel which is primarily used for agricultural or horticultural purposes. The effect of this change will now include all land on the parcel as agricultural or horticultural land as opposed to the current statute which excludes land associated with building from being classified as agricultural or horticultural land. Second is, LB1037 adds farm sites and farm home sites under the definition of agricultural and horticultural purposes. And if you can tell, purposes is the key here. And then thirdly, wasteland is moved from the definition of agricultural and horticultural land to the definition of agricultural or horticultural purposes. The fourth change is whether a parcel of land is primarily used for agricultural and horticultural purposes is determined without regard to the actual value or use of any building or enclosed structures on that parcel of land. What these changes will do in practice is allow the assessed value of farm home sites to be 75 percent of their market value. What has happened under the current policy is that county assessors in parts of the state that have a mixture of agricultural and nonagricultural areas, have recognized the market value of a home site to varying degrees. The current requirement to value a home site at 100 percent of its market value requires an analyst of the highest and best use of the site to recognize the market value. Thank you. He's from my district, you know, Oakland. (Laughter) The highest and best use of the appraisal phrase that acknowledges that a prudent buyer would recognize all of the potentials for the property and pay a price that reflected the site's maximum potential. In one area in particular, the market value for a site in close proximity to the metro areas has been determined to be approximately \$65,000 per acre with some of the sites being valued over \$100,000 per acre. While this valuation is sensible for acreage owners, people in the suburban areas and the land is not part of an agricultural parcel, the farmers in this area are then obliged to pay property taxes on a value that is driven up by trends to reside in the countryside. Farmstead owners have raised concerns over the past five years and protested valuations. I think we heard that on the last bill we discussed. And since the burden and an appeal is on the taxpayer to prove the valuation is incorrect, sale information has not been clear enough to overcome that burden. LB1037 provides explicit direction on what the site assessment is to reflect. In approximately 80 counties the language of LB1037 would reduce the previous 100 percent assessment on farm sites and farm

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home sites by 25 percent. So they would reflect a valuation of 75 percent of market value. In other counties they've been recognized...that have recognized the presence of nonagricultural influences on agricultural land values, LB1037 would allow special valuation on the farm site and farm home site. Owners of agricultural land would no longer be assessed at 100 percent of \$100,000 market value on their first acre site, nor would they be assessed a 75 percent of that market value, but rather at 75 percent of the market value of a farm site or farm home site in areas that are not considered influenced by nonagricultural development. For example, in Otoe County which does not consider its agricultural land influenced by nonagricultural development, it assesses agricultural and horticultural land at \$12,000 per site. In counties where nonagricultural development is a problem, those counties would likely end up with an assessment closer to 75 percent of Otoe's market value. To help protect owners of agricultural land from excessive property tax burden associated with nonagricultural residential development, the Legislature enacted provisions for special valuation of agricultural or horticultural land in 1974. And I believe that was referred to earlier. These provisions allowed owners of agricultural land to apply for a special valuation that provides them with an assessment value at 75 percent of the market value of their land without regard to the value the land has for nonagricultural purposes or uses. LB1037 helps clarify that farm sites and farm home sites are important components of an operating farming or ranch operations. Recognizing the farm site and farm home sites in the definition of agricultural and horticultural land recognizes their contribution to the production of an agricultural or horticultural product. Thank you for your time and your attention and I encourage you to pass LB1037 out of committee to General File. And I believe the operative date...and I'm confirming this, is January 2017 to allow for time for the assessors. I do believe that Ruth Sorensen is behind me for the difficult questions today that you may have, but I'm here to take ones that maybe I can answer. [LB1037]

SENATOR GLOOR: Okay. Are there any questions for Senator Brasch? Senator Scheer. [LB1037]

SENATOR SCHEER: Thank you, Senator Gloor. Senator Brasch, I'll ask you. If you want to waive it off, sure, that's fine. And I'm just trying to sort of figure out and I guess there's always exceptions, so I'm trying to figure out if this is the exception. You have a quarter that's developed into 20 housing sites, so it's valued at \$50,000 an acre, or whatever the case might be, or \$40,000. And across the street you have an active farm and the farmstead, but farmstead is no longer the farmstead, that's where the farmer lives. Got a fairly new house, but all the implement buildings and so forth are now at part of this farm that may be a quarter of a mile or a half a mile down where he bought a quarter and razed the house and just has the buildings for the implements and so forth. So the house really is, you know, truly about as identical as you're going to get as those across because it may be on the same ten-acre lot type because there's no implement buildings there, but it is...the farmer lives there, he does farm the adjacent grounds.

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So how would those two different properties be valued different, I mean...if that's not yours, then I'll... [LB1037]

SENATOR BRASCH: No, I think I can explain this and then I would...Ruth may correct me. But basically, a house is a house will always pay 100 percent of your taxes, so will your building. But what has happened, or is happening increasingly, is it's wonderful to live on an acreage in the country and it may be right next to and what once was a cornfield, but I live within minutes of the urban area. And I'm not in the operation of farming or ranching, but I'm just basically living on an acreage. And what's happened, and is happening and more and more, and they're being protested, ongoing. You know, people are going in because those, that farmer and the business livelihood of not driving the 20 minutes to work for... [LB1037]

SENATOR SCHEER: Well, I get that Senator Brasch, but that's not my question. [LB1037]

SENATOR BRASCH: What is...? Okay. [LB1037]

SENATOR SCHEER: My question is, the farmstead is no longer... [LB1037]

SENATOR BRASCH: If he lived in the development, then he would...okay. [LB1037]

SENATOR SCHEER: No, just let me...I'm going to start over. The farmer has demolished the barn, all the outbuildings. He has built a new house in 1994 and it's, you know, 2,000, 3,000 square foot house, identical to the ones across the street in the new development that have ten-acre lots, the acreages. He has carved out his home site now, is a ten-, twelve-, fifteen-acre spot that has no outbuildings, just has grass, maybe a small orchard next to it, for all intents and purposes will look identical to those across the street on the ten acres. So are we going to distinguish that home where the actual farmer lives, but has no outbuildings and looks identical to those across the street? Will that now have a lower value than those across the street? [LB1037]

SENATOR BRASCH: I will leave that to an assessor. I don't know of a single farmer that doesn't love his outbuildings and could be without them. [LB1037]

SENATOR SCHEER: Well, he would still have them, just in a different location. [LB1037]

SENATOR BRASCH: That's a good question and I'll save that for those behind me, but I believe that when they're in the business and operation of farming, and they are living on the farm parcel,

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then that is at...you know, except for the value of the house, the same wherever...you know, that's 100 percent, but because they are, the rest of the land, you know, whatever...

SENATOR SCHEER: Well, my example could be the same as, you know, a farmer has two sons that go in the operation, so now the farm...all the operational buildings, the son's living there. And dad decides, you know, he doesn't need the big two-story old wooden house, so he builds the new house and carves out a ten- or fifteen-acre corner that's not going to be impeded by irrigation, so it's just up in that corner, and, you know, not as usable, but the only thing he builds there is a house and he is indeed...farms that ground. So it is...it is there. And that does happen, so I'm wondering how we're going to assess that type of entity versus the one that may end up being right across the street. [LB1037]

SENATOR BRASCH: It's a good question. I'll have the Revenue Department...they're better at that than I am. [LB1037]

SENATOR SCHEER: Thanks, Senator Gloor. [LB1037]

SENATOR GLOOR: Any other questions for Senator Brasch? Not right now. Thank you, Senator Brasch. We'll move to proponents. Good afternoon, Ruth. [LB1037]

RUTH SORENSEN: (Exhibit 1) Good afternoon. As they hand out my testimony and there is a home site map attached to that testimony, it will begin here: Thank you, Chairman Gloor and members of the Revenue Committee. My name is Ruth Sorensen, that's R-u-t-h S-o-r-e-n-s-e-n, and I am the Property Tax Administrator for Nebraska. I'm here to testify in support of LB1037. LB1037 redefines agricultural or horticultural land to include the farm site land and the farm home site land, as you just heard. These sites are currently assessed at 100 percent of market value, and would be assessed then at 75 percent of market value. It's important to note the assessment on these sites would still be a function of their market value under this bill. The current policy does not include the farm sites and farm home sites, as you've heard from Mr. Vinduska, as part of the agricultural land which has led to the large inequities from one county to the next as is illustrated in the map that's attached to my testimony that I've just handed out. You will note that the counties around the interstate or the urban centers in our state have higher farm home site values. This is because the market in these areas is driven up by acreages, those that want to live in the country but want to commute to their jobs, and other suburban potentials like the development of subdivisions, etcetera. On the map, the red is...are the largest valued farm home sites and it goes down from there. And you can see the red ranges from \$15,000 for that first acre, the home site acre, all the way up to \$57,000. LB1037, as written, will begin addressing these inequities by including the farm sites and the farm home sites in the definition of agricultural land, recognizing their contribution to the production of an agricultural or

horticultural product. There are approximately 80 counties in the state of Nebraska that will be affected by this with LB1037 will reduce the previous 100 percent assessment on farm sites and farm home sites by 25 percent, so the valuation is 75 percent of market value. I have an estimate of 13 counties that have some form of special valuation. I believe perhaps the seven that were testified to earlier were fully influenced by the urban areas but we do have others out in Buffalo, in York, in Saline, etcetera, that do recognize special valuation. In addition there are a number of counties that have recognized the presence of nonagricultural influences on agricultural land values. These counties allowed the assessment of agricultural and horticultural land at a value that does not consider nonagricultural influences. And this is special value that you just heard about, or others referred to it as greenbelt. In these counties, LB1037 would allow special valuation on the farm site and farm home site. The value would be 75 percent of the market value as a farm site or farm home site without considering all those other nonagricultural influences, such as I said earlier, acreage development, etcetera. This bill will also fulfill the underlying intent of special valuation which was to ensure that the property values and in turn, property taxes on a parcel of agricultural land do not become so excessive as to tax our farmers or ranchers off of their land. With that, I will complete my formal testimony and I will take any questions that you may have. [LB1037]

SENATOR GLOOR: Are there any questions for Mrs. Sorensen? Senator Scheer. [LB1037]

SENATOR SCHEER: Thanks, Senator Gloor. You're sitting there so I know you heard it so if you would just respond to it. (Laughter) I can make the same spiel again if you'd like. [LB1037]

RUTH SORENSEN: No, I understand. I understand the one where the ten acre right across the street. In current law, LB1037 does not change this. Farm home site means land contiguous to a farm site, which includes an inhabitable residence and improvements used for residential purposes. It's on page 3. Farm home site means a portion of land contiguous to that land that's actively devoted to agricultural purposes. So if you have a subdivision across the street and that's valued at 100 percent and the land also is valued at 100 percent, because in your example this farmer has a house but he doesn't have a farm site there, it's not contiguous to agricultural land, so he'd be valued at 100 percent as well. [LB1037]

SENATOR SCHEER: So as long...if there are no outbuildings or anything that made it look or appear to be agricultural in its intent, so if he's mimicking or he doesn't want to look like the farm place anymore, it actually then becomes just a residential location and is taxed as such. [LB1037]

RUTH SORENSEN: Right, because it's not contiguous to a farm site which would contain those outbuildings, in your example. [LB1037]

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SENATOR SCHEER: Okay. [LB1037]

SENATOR GLOOR: Senator Schumacher. [LB1037]

SENATOR SCHUMACHER: Thank you, Senator Gloor. What if he had three goats running around his ten acres, does he save the tax money then? [LB1037]

RUTH SORENSEN: It has to be a farm home site that's lying contiguous to a farm site and a farm site is that land that's devoted to the operation that has the buildings on it. And then the example that Senator Scheer used, there is no farm site so, there, no, the goats would not qualify it. [LB1037]

SENATOR SCHUMACHER: Well, I just added three goats that give really good milk. Do I beat the system? [LB1037]

RUTH SORENSEN: No. [LB1037]

SENATOR SCHUMACHER: What do I got to do to beat the system? [LB1037]

RUTH SORENSEN: You need to have a farm site that's contiguous to your farm home site. [LB1037]

SENATOR SCHUMACHER: Well, I mean, I thought in his example the whole...the rest of the land all around it had corn or beans on it, then it got ten acres with his house on it and now my three goats, looks like a farm to me. [LB1037]

RUTH SORENSEN: A farm site has the improvements that are used for the operation on it. So if you have a home and then you have a site...a farm site which has the barns, the machine sheds, whatever you need to store your equipment, and then you have the agricultural land. So if you have the goats with none of those buildings, it's got to be lying in contiguous to, in the current law as it is now so it does not change in LB1037. [LB1037]

SENATOR SCHUMACHER: But it's all one legal tract, how can it not be contiguous? [LB1037]

RUTH SORENSEN: As it's defined right now in 77-1359, a farm home site means land contiguous to a farm site. [LB1037]

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SENATOR SCHUMACHER: Okay, this is. [LB1037]

RUTH SORENSEN: No, farm site means the portion of land contiguous to the land actively devoted that has the improvements that are agricultural in nature but are uninhabitable. [LB1037]

SENATOR SCHUMACHER: So I go down to Tractor Supply and I get a couple of these igloo looking things for my three goats. Do I do it now? [LB1037]

RUTH SORENSEN: If you store stuff in there, if you use it for agricultural purposes... [LB1037]

SENATOR SCHUMACHER: My goats are going to use it. [LB1037]

RUTH SORENSEN: Okay. Absolutely, then you can...yes. [LB1037]

SENATOR SCHUMACHER: Okay. Well, now you know what it takes. (Laughter) [LB1037]

RUTH SORENSEN: But it has to lie contiguous that goes with the farm site... [LB1037]

SENATOR SCHUMACHER: Right next to it. [LB1037]

SENATOR GLOOR: ...home site, farm site, agriculturally. [LB1037]

SENATOR SCHUMACHER: Right next, was side by side. [LB1037]

SENATOR GLOOR: I think that's one of the loopholes that we were talking about earlier. Senator Smith. [LB1037]

SENATOR SMITH: Thank you, Mr. Chairman. I'm going to build off what Senator Scheer and Senator Schumacher has been asking. So if you have a five acre or a ten acre plot of land that is...it is continuous...it's contiguous to a farm site, but you have a residential dwelling that sits on this large acreage just like what a city dweller would have, large acreage. It had a swimming pool, it's for the purpose of their residential needs, but it's contiguous to their farm site. You're telling me that that area is...that property is still...still has the 25 percent reduction. [LB1037]

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RUTH SORENSEN: No, if I may, Senator. So it has a residence on a ten-acre tract and there's a farm site and... [LB1037]

SENATOR SMITH: That's contiguous. [LB1037]

RUTH SORENSEN: ...the remaining acres are used for an agricultural and horticultural purpose. Yes, if that is in common ownership in management of that farm operation, it would...that land would qualify. The home, now the improvements themselves, stay at 100 percent. [LB1037]

SENATOR SMITH: I don't care about the home,... [LB1037]

RUTH SORENSEN: It's the land. [LB1037]

SENATOR SMITH: ...I'm talking about the land that's primarily for residential use. Why is that fair for them to get the 25 percent exclusion with the city dweller has the same size piece of land, same swimming pool, whatever it is, but they're at 100 percent, but that acreage for that farmer is at 85...75 percent? Why is that fair? [LB1037]

RUTH SORENSEN: Because we don't value on whether it's a true farmer or a nontrue farmer or if they're a city dweller, they're a noncity dweller, we value on the...how that parcel is classified. And if that, in fact, is a person, what I would see is a home. It might be an expensive home. I can't look at that. I have then ten acres and it's got a...you said, there is a farm site, so there are operations going on of some type of agricultural or horticultural purpose, and beyond that, some type of agricultural land, they would get...we have a separate constitutional provision that indicates agricultural land can be valued separately. [LB1037]

SENATOR SMITH: Let me paint this picture. So we have a business owner that is nonagricultural business owner that has property that they're paying 100 percent valuation on. They happen to live in the country on an acreage and they're paying 100 percent on that. [LB1037]

RUTH SORENSEN: Correct. [LB1037]

SENATOR SMITH: But yet we have an agricultural business called a farmer that has contiguous property and they get a 25 percent reduction on both their business property, which I agree with that on the agricultural land, but they also get on their...what they're using for residential purposes. And that's what I'm hearing. [LB1037]

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RUTH SORENSEN: If that...yes. If that is used in common ownership with the operation, correct. [LB1037]

SENATOR SMITH: Thank you. [LB1037]

SENATOR SCHUMACHER: Senator Scheer. He wasn't there. (Laughter)

SENATOR SCHEER: Thank you, Senator Schumacher. Again, just playing devil's advocate here. Going back to my example, so I build a nice house but I don't want to have...I want to get the exclusion so I throw a steel three-car garage and I put my pickup in there at night in my pickup's farm. It's tagged as a farm, it's farm use, so now it holds farm property. And in and of itself, does that then create a farmstead? [LB1037]

RUTH SORENSEN: No, it would not because you have not indicated that there is agricultural land lying adjacent to it. [LB1037]

SENATOR SCHEER: Well, it's farm use because I use the pickup for farming. [LB1037]

RUTH SORENSEN: One pickup doesn't make a farm, I would say, but there's others that may think differently. [LB1037]

SENATOR SCHEER: Well, you're the one going to say it, so... [LB1037]

RUTH SORENSEN: Well, it has to lie contiguous to agricultural land. [LB1037]

SENATOR SCHEER: Well, it does. I mean, it does. I mean, I'm going back to the same one. He's carved out the quarter because it doesn't produce that much and so everything is fine and dandy and I put the house up, but I still want to have the lower value so I put, you know, a small, you know, steel building. You know, maybe it's a 20 by 20 or 20 by 30... [LB1037]

RUTH SORENSEN: And then it does have ag lands adjacent to that? [LB1037]

SENATOR SCHEER: Yeah. [LB1037]

RUTH SORENSEN: Okay. [LB1037]

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SENATOR SCHEER: So, but he parks his boat and his RV and his two cars and his pickup in there. [LB1037]

RUTH SORENSEN: Then that may qualify. [LB1037]

SENATOR SCHEER: Just by getting a big enough steel building, then it would be contiguous. [LB1037]

RUTH SORENSEN: If it has any type of machinery that's used in the operation of that farming... [LB1037]

SENATOR SCHEER: Which would be the pickup. [LB1037]

RUTH SORENSEN: ...that may qualify. [LB1037]

SENATOR SCHEER: Okay. That's what I thought. [LB1037]

SENATOR SCHUMACHER: But really does if you put the three goats in it? (Laughter) Senator Harr. [LB1037]

SENATOR HARR: Thank you, Senator Schumacher. Okay, I have a question now and I just want to make sure I'm clarified. I have two separate scenarios, so let's...first scenario one. Two brothers, dad dies, two brothers. One brother gets five million dollars worth of apartment buildings and lives in the country. Another brother gets five million dollars worth of ag land and lives in the country and has whatever, the pickup, garage, and a couple of goats and a goat barn. Brother one, we'll call him Johnny. Johnny pays 100 percent on the apartments he owns and he pays 100 percent on the home, correct? [LB1037]

RUTH SORENSEN: Yes, correct. [LB1037]

SENATOR HARR: Bobby, person number two, brother number two, Bobby leases the land out, doesn't do anything but leases it out. He's not an active farmer but it's contiguous, it meets all the criterias. He pays 75 percent property tax on the farm, correct? And as a homestead, he would also pay 75 percent if this bill were to pass. [LB1037]

RUTH SORENSEN: Land, correct. [LB1037]

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SENATOR HARR: Part of the land. [LB1037]

RUTH SORENSEN: Correct. [LB1037]

SENATOR HARR: Okay. Question number two. [LB1037]

RUTH SORENSEN: It's all common ownership. [LB1037]

SENATOR HARR: Okay. I live in the city, I have a nice house and I want to control my neighbor. I don't want something built next to me, so it's a separate legal parcel. All right. I just plant a garden on it. I'm looking at your definition of agricultural value. It seems like that would fit under the value...or definition of ag, and I would only pay 75 percent, even if it's in the middle of the city. Is that correct? [LB1037]

RUTH SORENSEN: No, that is not correct. [LB1037]

SENATOR HARR: Okay. Why is that? [LB1037]

RUTH SORENSEN: Because it has to lying contiguous to agricultural land. [LB1037]

SENATOR HARR: It has to be contiguous to what? [LB1037]

RUTH SORENSEN: Agricultural land, which is agricultural production. [LB1037]

SENATOR HARR: Okay. So if I'm an island and I buy ten acres in the middle of a city, and I farm it and use it as a farm, do I get ag value? [LB1037]

RUTH SORENSEN: No, well, there are cities...I know like in Sarpy County, if there's agricultural parcels within the city, they do get the agricultural value, but they don't get the special value. [LB1037]

SENATOR HARR: Do they get the 75 percent? [LB1037]

RUTH SORENSEN: They get 75 percent, but then that special value on top of that. [LB1037]

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SENATOR HARR: So why wouldn't I get it on my one parcel, if all I'm using it for is farming, for growing vegetables? [LB1037]

RUTH SORENSEN: That is not considered an agricultural or horticultural purpose. You're not...it's got to be a commercial production. [LB1037]

SENATOR HARR: Where does it say it has to be for a commercial? [LB1037]

RUTH SORENSEN: It may not be in this bill, but it is in...let's see. Oh, yes, it's on page 2, Section 1(2)(b). Agricultural or horticultural purposes means used for the commercial production of any plant or animal product in a raw or unprocessed state that is derived from the science, etcetera, etcetera. [LB1037]

SENATOR HARR: Okay. So I'm selling it in my community, I'm selling at my farmer's market...all my produce at the farmer's market. [LB1037]

RUTH SORENSEN: That is not what has been defined or understood to be the commercial production for agricultural. [LB1037]

SENATOR HARR: So I put a bunch of chemicals on it, now is it commercial? [LB1037]

RUTH SORENSEN: I wouldn't... [LB1037]

SENATOR HARR: I mean, what is your definition of commercial versus...? I mean, I don't know. I honestly don't know. [LB1037]

RUTH SORENSEN: Well, for commercial production what we usually do for the ag, it could be...there could...the one acre, it's generally, and I will say across the state, there are a number of different ordinances where you have to have a number of acres. And if you meet that acreage you may be able to get ag value but you may not be able to get special valuation. For commercial production we've always said in the past, it's a dollar or more. However, it's got to be...I believe it used to be... [LB1037]

SENATOR HARR: So I...we could... [LB1037]

RUTH SORENSEN: ...primarily used for agricultural or horticultural purposes. It's not primarily used for horticultural purposes, it's used as a residence for your one acre. [LB1037]

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SENATOR HARR: So we could change the definition by statute and say agricultural land is any land that grows fresh produce. And so if I have a little corner garden on my property or a rose garden, let's just say...we can make that ag value at 75 percent. Is that correct? [LB1037]

RUTH SORENSEN: That would be a policy decision, Senator. [LB1037]

SENATOR HARR: But we could do that, right? [LB1037]

RUTH SORENSEN: I suppose you could. [LB1037]

SENATOR HARR: Okay. Thank you. [LB1037]

SENATOR SCHUMACHER: Any other questions? [LB1037]

RUTH SORENSEN: Thank you. [LB1037]

SENATOR SCHUMACHER: Thank you very much for your testimony, Ruth. Any further testifiers on LB1037? [LB1037]

JAREL VINDUSKA: Thank you, Revenue Committee. Jarel Vinduska again. J-a-r-e-l V-i-n-d-u-s-k-a, 19506 South Highway 31, Gretna, Nebraska. I hope to clarify some of these questions that I've just heard you Senators ask. Well, number one, the scenario, Senator Harr, about being in town. That's being taken care of right now because the definition of a farm home site is land with a habitable residence and improvement use for residential purposes which is located outside of an urban area and outside of a platted and zoned subdivision. So even a rural subdivision out in the country that's a platted subdivision, that's excluded from being called a farm home site. And as far as the questioning in regard like there was, like there's a...it's an unfair situation to have an acreage out in the countries, example, you gave a five acre acreage and across the road is a farmstead with a farmer on a similar looking property. What dictates that is Department of Revenue regulation 50-002-0A. And it's a definition of land valuation. It says land shall be valued as though vacant and available for development to its highest and best use. The land valuation shall be conducted in a manner described in a sales comparison approach. The sales comparison approach is the only logical way to assess property because that's the only fair way. And Mr. Smith, your idea of saying they're identical properties, they're not identical properties. The reason a developer goes out in the country and buys a quarter section, divides it up into five-acre parcels, he buys that with the intent of making a profit. And to create that profit he has to do surveying, he has to provide roads, he has to provide water, he has to provide electricity. He has to...usually put covenants the people want. He has all these inputs that make that acre, that five-

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acre tract have a value that it has. The five acres on the home site on the farm doesn't have those inputs put into it. And that's the other thing. Land, the comparison sale approach has to be used. The statute says that land has to be assessed as it is on January 1st on each year. So when you go into an assessment year, if this five-acre piece has X value per acre, say \$20,000 an acre because it's a five-acre piece, and this farm across the road has a \$10,000 an acre value because it's a farm and can only be sold as a farm, this guy on the acreage isn't getting cheated. The comparable sales will show his land is vacant land, will be worth \$20,000 an acre and the comparable sales of the farmer across the road will show that his farm is worth \$10,000 an acre. So it's...it is a fair...it is fair. That's how we always assess property, is comparable sales. And that's why I gave the example what happens in Sarpy County of not being fair is because in 2009 when we were at \$64,000, do you know how that \$64,000 was gotten? There was a subdivision in Sarpy County called Thousand Oaks. There was a lot, a half acre lot in there that sold for \$32,000. So our assessor, he's charged with, oh, what's an acre on a farm worth? Oh, a half acre over here in the subdivision is \$32,000, so I'll make it \$64,000 on the farm. At the same time we were \$64,000 in Douglas, Washington, Saunders, Cass, all the counties around us, they were in the \$15,000 to \$20,000 range for acre. So there was no...because it was so ambiguous of how you assessed this piece of property to which there's no comparable sales to assess it to, then we got stabbed, especially with the common levy where a lot of our money went to Douglas County. And so what's happened over the years, in 2011, after so many complaints with the TERC, we had a special session for LR, LR350. Senator Schumacher, you were involved in that. This is the transcripts from it in which all the senators were involved in special assessment. They...some of them like Senator Fischer and LeRoy Loudon and Dennis Utter, they were involved in the making of special assessment and they said, that wasn't our intent for the farmstead to be assessed like as if it's a lot in a subdivision. It was supposed to be assessed like it's a piece of property as part of the farm because that's what its value is. So as a result of this, then Property Tax Administrator Ruth Sorensen created...when we went into, I think it was LB750, created her Directive, 12-3, in which she wrote that it can't be in a platted and zoned subdivision, but so then when that happened, our assessor to get around that problem since he couldn't use lots and subdivisions like in Thousand Oaks like before, then he did what's called extrapolation. If a section farm was worth \$6,000 an acre and a quarter section was worth \$10,000 an acre and a forty was worth \$12,000 an acre and a twenty was worth \$20,000 an acre, he graphed those on...plotted on a graph and then he just extrapolated into nowhere and continued the graph up to \$60,000, total hypothetical figure, but we're still stuck with that. [LB1037]

SENATOR SCHUMACHER: Thank you for your testimony. Do we have any questions? Senator Scheer. [LB1037]

SENATOR SCHEER: Thank you, Senator Schumacher. Is this just a problem with Sarpy County? [LB1037]

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JAREL VINDUSKA: No, no, it's just that it's most egregious in Sarpy County. Like right now, Saunders County is at \$28,000 and... [LB1037]

SENATOR SCHEER: I know, but, I mean, looking at the map, the huge one is Sarpy County. Everybody else, I think the numbers probably are somewhat realistic, but yours, I would think... [LB1037]

JAREL VINDUSKA: How is \$28,000 realistic on a 10,000 acre farm? [LB1037]

SENATOR SCHEER: Well, where's the... [LB1037]

JAREL VINDUSKA: And how do you come up with the \$28,000? [LB1037]

SENATOR SCHEER: I'm not in that business, I'm not going to argue with you. I'm just saying that from my perspective, it looks like it's a Sarpy County problem that we've got legislation trying to fix, because that's really the only outlier. The rest seem to be somewhat in relative relationship to the value of ground. [LB1037]

JAREL VINDUSKA: Well, I don't understand if Sarpy County can be the most egregious, but if...in fact, that's what happened the last time we tried to fix this. NACO came on board and said, well, we're only over...in the more rural areas, we're only doubling the value of what it is and it isn't enough for the people to complain, so we don't want to reduce the revenue for these counties just to fix Sarpy County. But really, isn't it fair to...even if you're on a \$10,000 an acre farm and you're putting in...your assessor is putting it at \$28,000, why is it fair to over double the value of that acre? I don't understand. Just because one is worse than the other, you guys have the power to fix it. [LB1037]

SENATOR SCHEER: Well, I think any homestead, I mean, home property, not in production use, certainly has a higher level of value than raw production ground. I don't think that's a stretch. [LB1037]

JAREL VINDUSKA: And I guess that's where we disagree because I say the farmstead is using for production agricultural, a cow lot, your windbreak, your...everything on there is for production agricultural. That's why we decided...we decided as a state and as a country years ago the reason we did special assessment... [LB1037]

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SENATOR SCHEER: Well, but excuse me, a windbreak is not unique to a farmstead. I mean, even your hobby farmers or your developments out there that had the ten- or fifteen-acre lots, almost every one of them exclusively are going to have some type of windbreak. [LB1037]

JAREL VINDUSKA: But if I might answer that, I think you're losing track of the reason for special assessment. We decided as a society that agriculture was important to our economy, it was important to our national security not to run people off the farm. [LB1037]

SENATOR SCHEER: I'm not trying to run people off the farm. I'm not disagreeing that yours might be high. [LB1037]

JAREL VINDUSKA: Yeah. [LB1037]

SENATOR SCHEER: I'm not disputing that, but what I am telling you, from my perspective it looks to me like the problem we're trying to address is more unique and exclusive to Sarpy County than the rest of the state of Nebraska. And I don't know if it's our job to fix Sarpy County's problem. [LB1037]

JAREL VINDUSKA: Why isn't it? [LB1037]

SENATOR SCHEER: Why would it be? Why isn't it Sarpy County's? If you've got an assessor that's not doing their job, or you don't think he's doing it...he or she is doing it appropriately, that's what a ballot is for. You've got...I'm assuming either this year or in two years, would have the opportunity to remove that person. [LB1037]

JAREL VINDUSKA: But how do you...how do you remove a person when the majority of the voters are city people and it's easier to gouge 800 farmers than several thousand city people? [LB1037]

SENATOR SCHEER: Well, that's happened to everybody out in rural. I mean, I emphasize...I empathize with that. Don't get me wrong. I'm trying to work...I'm trying to do property tax relief for rural Nebraska, but the fact that rural folks are getting gouged or whatever term you want to use in Sarpy County or in rural Nebraska, you're absolutely right because the population is not there. So in some respects, probably some people don't believe that's really necessary to address the problem simply from a population standpoint. I'm not arguing with that. I'm just looking at the numbers that were presented by Ms. Sorensen to the extent of the values and, you bet, Sarpy County is the outlier, but the rest I'm not sure is that far off. [LB1037]

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JAREL VINDUSKA: Now, like I say, I disagree, but... [LB1037]

SENATOR SCHEER: Fair enough. Thank you. [LB1037]

SENATOR GLOOR: Are there other questions? Seeing none, thank you for your testimony. [LB1037]

JAREL VINDUSKA: Thank you. [LB1037]

SENATOR GLOOR: Continue with proponents. [LB1037]

JOHN KNAPP: (Exhibit 2) My name is John Knapp, J-o-h-n K-n-a-p-p. I'm from Sarpy County and I agree with most of the testimony that's been given so far for this bill. What I handed out, it's just my tax statements from 2010, '12, and '14 is to give you an idea. And this is on bare ground, no houses on it. How much it has changed and the bottom on the front is '14, '12 is the top, and '10 is on the back. And I guess, our assessor is the problem and to a degree since he's gotten away with it--I call it getting away with it--we go to the TERC. The TERC says it's your Board of Equalization and the State Department of Revenue approves of it, so they go along with it. The Department of...or the Board of Equalization says TERC and the state department, or Department of Revenue goes along with it, so we're out there. And everybody just points at everybody else and you go into a circle and you get...try to do a complaint. As Jarel said, there are no sales for sales comparisons. And if you look at the...our assessor has taken the theory that diminishing marginal utilities applies for ground, when you buy ground. He's arbitrarily decided one acre is the ideal parcel for everybody to own. Everybody wants...that's the goal of everybody is to have one acre and he's set that value at approximately \$60,000 an acre. And then he...so that shifts the value. If your land...if you sell a farm for, say, \$100,000 and \$60,000, that's probably... \$500,000 and you sell it...and he puts \$60,000 all on that one acre, that's really defeating the purpose of a special purpose. He's saying all the land...you bought this farm, but the real value is right there in the house and farm site. I have a two acre farm site, so mine is \$84,000 on two and a half acres. And also he uses...the law says, he can use up to one acre for the farm site. If you walk around my garage, my lawn...I've got a detached garage. If you walk around the driveway, the house, and the attached garage, I have a total of .6 acres when I walked with my GPS unit three times. But I'm still assessed at \$60,000 as a total acre because the law says he can charge up to an acre at \$60,000 of the site ground. And so, anyway, you're shifting the value...a big chunk of the value of the land into the home site and so, I mean, I appreciate any special assessment I can get on the ag land, but he's saying, well, no that's not applicable. And if I took a...and I'm just talking about your ten-acre site or an acre site, if you took a bulldozer and bulldozed my place, leveled everything off so I got bare ground, and you went to this ten acre site, and in Sarpy County I think ten acres are worth about, I think it's about \$12,000 or \$15,000

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an acre, farm ground is worth about \$7,000 an acre. If you bulldozed everything off your site, or you go to a lot in town, you bulldoze everything off and start over, one of these dilapidated houses he's talking about, they're going to be able to sell that lot or that acreage for whatever the value of that acreage is in your area. If I bulldozed the house, everything off mine, it becomes worth only \$7,000 an acre because I cannot sell one acre. I cannot sell ten acres without going through the zoning process. And so until the day I go through that whole process, I've got a...if you want to buy my house, you like my house, I've got a nice swimming pool, a nice garage, five-car garage, boat, everything in there, you got to buy the whole 80 acre farm to support the...to get my parcel. And I could buy yours for \$10,000...or it would be fifteen times ten, \$150,000. Anyway, that's another value. And our assessor adds everything on. We get charged for electricity, well, sewer, that's all added. If I put a little step out front, they measure it. That's all added on to the value. And a guy in town where you got your acreage, the ten acre, you'd be closer to me. They'd add it on there, but in town, which we're compared to as a lot, we...the guy in town with the \$60,000 lot, he's got free...he doesn't get taxed on his electricity, his sewer, his water. He's close to a fire department. He's close to all the services. And so, anyway...trying to slip through my notes here from what was said. And part of the...we're zoned agriculture. I'm zoned agriculture so I can't put a commercial building. You mentioned, or one of the senators mentioned commercial property and we have commercial property, but it's not legal in the county because it's not zoned commercial. But we do have people that have commercial property out there. [LB1037]

SENATOR GLOOR: Thank you, Mr. Knapp. Thank you for wrapping up. Are there questions? Senator Schumacher. [LB1037]

SENATOR SCHUMACHER: Thank you, Senator Gloor, and thank you for your testimony. I'm just trying to figure out your tax statements. Is this tax statement on all 159 acres? [LB1037]

JOHN KNAPP: Yes, I've got...I brought that because that would give you an idea what bare parcels have gone to. I also have a 84 acre tract with a house. I didn't give that to you. I'm just showing you since 2010 how our property taxes in general have gone up. The 84 acres with the house on it, and my two and a half acre building site, is valued roughly the same as that. When you look at that statement, my other statement for the other property is roughly the same. So, I'm about...this year I'll owe about \$21,000 in property tax. And if you look at the second page where 2010 is, the total bill is basically twice whatever the value is on page 2. [LB1037]

SENATOR SCHUMACHER: But, so the...this particular parcel, it's all the same parcel number, it's just your... [LB1037]

JOHN KNAPP: Right. Right. I kept that all the same for use. [LB1037]

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SENATOR SCHUMACHER: Okay. So, basically, if we correct for the value of \$682,000, you have \$909,000 worth of property in this 159 acres. [LB1037]

JOHN KNAPP: I...well, just a second here. [LB1037]

SENATOR SCHUMACHER: Well, I did the division, that's what it ought to be. [LB1037]

JOHN KNAPP: Okay. [LB1037]

SENATOR SCHUMACHER: And you're paying just \$10,000 in...\$10,500 in tax. [LB1037]

JOHN KNAPP: Right. That comes out to about...last year it was about \$75 an acre and this year it's going to be closer to \$90 an acre. I just went to a conference in Iowa and they were complaining about their property tax, so I asked them how high it was, \$26 an acre. And the guy says, no wonder everybody from Nebraska is buying land in Iowa. [LB1037]

SENATOR SCHUMACHER: Do you farm this land yourself? [LB1037]

JOHN KNAPP: Yes, I do. [LB1037]

SENATOR SCHUMACHER: Thank you. [LB1037]

SENATOR GLOOR: Senator Smith. [LB1037]

SENATOR SMITH: I'm just going to make a statement for my colleagues. Take a look at about the fourth or the fifth description level down, the Learning Community. This is what Sarpy County is so upset about so, Douglas County as well, so that's something we're trying to do, but. [LB1037]

SENATOR HARR: All right. Do we want to have this conversation now? (Laughter) [LB1037]

SENATOR SMITH: Not really. [LB1037]

SENATOR HARR: Okay. Then don't. [LB1037]

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SENATOR GLOOR: I would point out for my colleagues also that this line item on the statement that's called state tax credit. We always like to point out the state tax credit even though those little cards from the Governor aggravated people, it sure did a good job educating people about that. [LB1037]

JOHN KNAPP: Can I give you one quick on this last graph? [LB1037]

SENATOR GLOOR: Absolutely. You've earned it listening to me talking about the state tax credit. [LB1037]

JOHN KNAPP: The last graph is...and in previous years, they're talking about the special assessments. Our assessor has went down to the counties that are labeled there and looked at the values of what are similar soils and property would sell for in those counties, and let's say, right now in Sarpy County it's selling for \$7,000, let's say, they went down there and it's \$5,000, that's the value they pulled back, the average of all those counties, they pull those values in and that becomes what the agricultural value of the land was. And so, but last year, our assessor said it cost too much money and...too much money and time, and so he did not go down. He just went to Cass County around us and said, well, the Department of Revenue says because of the high ag prices right now, the developmental value and ag value are about the same and I can't argue with it because I haven't been down to price ground in the other counties. But that's what that shows. That's where the assessor used to get the values that he incorporated into the ag value of Sarpy County farms. [LB1037]

SENATOR GLOOR: Okay. Thank you for that explanation. Seeing no further questions, thank you for your testimony, Mr. Knapp. [LB1037]

JOHN KNAPP: Thank you. [LB1037]

SENATOR GLOOR: Continuing with proponents. Are there other proponents that are going to speak on this bill? Any opponents to this bill? I'd like to get people moving up a little closer if they are, so we've got people up here. Thank you. Go right ahead. [LB1037]

BRIAN McALLISTER: Hi. Thank again. My name is Brian McAllister, Brian, B-r-i-a-n, McAllister, M-c-A-l-l-i-s-t-e-r. I am here to support LB1037. Thank you for taking your time to listen to me. My wife and I own 40 acres of land along the east edge of Lancaster County, right next to Cass County. My wife's family has been owners of this farm since 1868. My wife and I purchased the farm from her parents over nine years ago. The parcel of property contains a farm site and a farm home site. And I continue doing the farming and also custom farm surrounding

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areas in the...within the surrounding areas. Now, my belief is, Lancaster County refuses to acknowledge the law that states that a farm site and a farm home site are agricultural land. And if you look at 1359, that's one of my arguments. The way 1359 is written right now, Section 1359, and if we look at that, it states that...Section 1359, anyway, it has four subparagraphs, four subsections. Each subsection defines a separate type of agricultural and horticultural land. The top of the 1359 is agricultural, horticultural land terms defined. And it's got four subsections. One subsection classifies it as the agricultural land without the buildings. Okay. That's what they want to use to determine the value for the rest of the land. And the second subsection explains what agricultural land is in that the conservation programs are agricultural land. And then if you look at subsection three, that's the farm home site, means land. They're talking about the land contiguous to a farm site. That is agricultural land. Subsection four. Farm site means a portion of land continuous to land actively devoted to agriculture which makes...which includes improvements that are agricultural in nature. All of those are agricultural and horticultural land. If you look at 77-201, on property taxable valuation and classification, subsection two, agricultural and horticultural land as defined in Section 77-1359, shall constitute a separate and distinct class of property. It doesn't say, 77-1359(1), it says all the subcategories in 77-1359. What I find interesting also, I, and my family own 700 acres of land in Boyd County. This has a farm site and an unoccupied farm home site. Boyd County's Assessor, Tammy Haney, states that per acre value is given to the land that the farm site is part of and the farm home site. Those values are combined and then assessed 75 percent of their value. The farm site and farm home site land are considered agricultural land. The Boyd County Assessor went on to say that that's the way the surrounding counties up there perform their agricultural assessments. My question from nine, six, seven years ago, was why is Boyd County assessing their property at 75 percent and the farm home site at 75 percent? Excuse me, got a dry mouth. Why is Boyd County assessing it that way and Lancaster County refuses to assess it that way? I like what Senator Brasch has done with her bill. What that does is it clarifies what is classified as agricultural land. Thank you very much. What a farm site...what is a farm site? A farm site is land that the buildings that are used for commercial production of any plant or animal. That's derived from the science of agricultural and horticultural. Taken right out of the...this is where we feed the cattle. This is where in the wintertime we have a lot, we feed the cattle. This is where we store our hay. It might be we're going to sell the hay, but we also store it and feed it to the cattle. We have equipment. I don't have a great big hundred thousand dollar shed. I have to park my equipment outside, but that's sitting on the farm site, on the land. We're out of time. One more thing I want to throw out there. Two, 4402, it's the Nebraska Right to Farm Act. It states that you have to have more than ten acres in order to farm. If you look, a lot of people have been talking about a little quarter acre here, a quarter acre...or a half acre there, or five acres here. That takes care of that. You have to have more than ten acres to even be classified your farm. Regulation. There's a regulation within the Department of Revenue and, unfortunately, I can't pull that one off the top of my head, but you have to also have more than \$1,000 worth of sales off of your farm in order to be classified as a farm. I don't know. Maybe you've got three fancy goats that are worth more

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than \$1,000, but that's one of the ways in which that...those issues can easily be contained. The other thing is, they talked about land within an area. It states right in 1359 that you've got to be outside zoned and platted areas, all...most municipalities are platted and zoned. Those take care of a lot of those questions that were being asked earlier. I stand in support, so thank you for listening to me. [LB1037]

SENATOR GLOOR: Thank you, Mr. McAllister. Questions of Brian? There aren't any. Thank you. Other proponents. Anyone in opposition? [LB1037]

TOM PLACZEK: Good afternoon, again, Chairman Gloor and members of the Revenue Committee. My name is Tom Placzek, T-o-m P-l-a-c-z-e-k. I'm the Platte County Assessor and the representative of NACO for the Nebraska Assessors Association, and also a taxpayer. One of the things...there are several things I want to bring up. One of them is, if...the question comes up in everybody's mind. Administratively, if there's a change in this and it's corrected from what it is currently to what is being proposed, that is not a big deal. That can be done relatively easily and so from that standpoint it's not a problem. There is some question in the language of the bill, at least that has been brought up to me, questioning...it doesn't state in there the 75 percent amount in the bill that I recall. So some people have brought up and said, well, I wonder if it's supposed to be valued as the contiguous land adjacent to it. That brings up the opinion of, okay, what if it's grassland next to it, what if it's irrigated ground next to it, if it's dryland ground next to it, how you supposed to value it. I just think that needs to be clarified if we're going to go forward with that. Another point, we currently value home sites, building sites, at 100 percent. Why would you change the land value under these buildings and homes that are going to continue at 100 percent valuation and change the land value to 75 percent. For instance, on the home site, the utility is the same. For the resident across the street, speaking of Mr. Scheer's example, boy, it would be awfully...the market would not recognize any difference between those properties. And if I have to go out there and drive and see, oh, wait, he does have a farm pickup in that garage, wow, that's going to make it awfully difficult to ascertain whether that is truly a farm site or not. Just one issue. I think something that hasn't been brought up is...because most of it has been about Sarpy County, and some of the high values in Sarpy, and perhaps Saunders and Washington, is two things. One is, this is a tax shift bill. It shifts it to the residential sector. All the residential people in that area are going to...because there probably aren't a whole lot of commercial, they're going to...it's going to be shifted onto their backs. I don't know if that's fair. The market...we do everything on a market basis and all of a sudden we're supposed to ignore it in some of these situations. I don't think that's right. Outside of again of those few counties in the eastern part, the impact of this bill to the individual farmer is almost zero. It is less than half of the last year's \$10,000 personal property credit. In Platte County, and we have some of the highest home site values in the state, I'm talking about possibly \$40 to \$60. That's how much you would save. Okay. I guess my question then is, is a \$40 to \$60 tax break to one sector a fair use

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and a fair policy to...I think it just perpetuates inequality. The residential and commercial taxpayer should not be the scapegoats of campaign promises. That's all I have to say. [LB1037]

SENATOR GLOOR: Are there any questions? Senator Sullivan. [LB1037]

SENATOR SULLIVAN: Thank you, Senator Gloor. Thank you, Mr. Placzek, but would you...and maybe you don't agree, that there are some inconsistencies across the state, Sarpy County being one of them. And should we address it at this level or where, as to Senator Scheer's point, should it be addressed at the local level? [LB1037]

TOM PLACZEK: Okay. I do have a copy of that map that you have before you and two things. One, there's always going to be inconsistencies across the state. You've got different valuations of property everywhere, so a home site is going to sell differently in Platte County or Banner County or Sarpy County or Cheyenne County, so there's always going to be some changes there. And you're going to see differences across county lines, unfortunately, that happens. No system is perfect. But I don't think you, as a Legislature, should be taking care of an issue that maybe just one or two counties that have to deal with. That's what the job of the Property Tax Division is supposed to be doing. They're supposed to make sure that we're doing it correctly. Now, I'm not going to sit here and judge the Sarpy County Assessor or anybody because I don't have any of their information in front of me. I don't know any of their market data. I don't know any of that stuff. All I know really is Platte County and I don't think...and we work with liaisons all the time from property tax. So I just don't think that the Legislature should be trying to dictate to 92 or 90 other counties what may be an issue in less than a handful. [LB1037]

SENATOR SULLIVAN: Yeah, I can understand that, but by the same token, did you say in your earlier comments that the details of this proposed legislation would be doable and not create big ripples? [LB1037]

TOM PLACZEK: The way we have it in Platte County. We have, for instance a...you know, the home site, that's for a farm and it's designated HM2. If it's an acreage, it's HMZ. So all I would have to do and for next year we're changing it from \$17,000 to \$20,000, so our acreage would go to \$20,000 for the first acre. If this would come through we would change that to...for that home site on the ag, we would just make it \$15,000 because it would be 75 percent of \$20,000. The market says it should be \$20,000, but if this passed, we would do that. Now, we're on the MIP system. I don't know how it is for most the other systems, but I can't imagine it's that big, it's got to be pretty similar, so. [LB1037]

SENATOR SULLIVAN: Thank you. [LB1037]

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SENATOR GLOOR: Senator Davis, did you have a question? [LB1037]

SENATOR DAVIS: Play a little bit along the same lines as Senator Scheer's and Senator Sullivan's questions to Tom, but with regard to the map and knowing my part of the state which is essentially Grant, Hooker, Thomas, and Cherry. Thomas, it looks like is \$11,000, Hooker is \$320 and they're 26 miles apart, so it looks to me like you've got a problem there. They do. [LB1037]

TOM PLACZEK: Possibly. I will say this. When I distributed a map of this, copy of this map at our northeast district assessor's meeting, several assessors spoke up and said, that is not the right figure. Now, it isn't our... [LB1037]

SENATOR DAVIS: You mean, the \$320 figure. [LB1037]

TOM PLACZEK: Right, I can't imagine that a first acre is only \$337. There's got to be an explanation somewhere. I don't know what that is, but I know several assessors mentioned that those figures were not right, and so. [LB1037]

SENATOR DAVIS: Well, that assessor is a very sharp guy so I have the same concern, but even then with Thomas at \$11,000 and then Grant at \$2,000, Arthur at \$3,000, McPherson at \$4,000, it seems to me that's a fairly contiguous and similar area, that that's quite a variation. [LB1037]

TOM PLACZEK: And possibly some of them are doing things wrong. [LB1037]

SENATOR DAVIS: So do you...so I'm just going to ask you the process. Do you have to borrow sales in these situations to determine that? [LB1037]

TOM PLACZEK: They might. We don't, you know, in Platte County we have a very dynamic real estate market and acreages and things like that so well, but I can imagine in some of these areas you probably don't have a lot of sales to pull data from. And any assessor will tell you, I'd rather have too much data than not enough. And so saying that, I'm not sure. I saw that discrepancy too, and I thought how can you have \$11,337. I...there's apples and oranges here. Somebody is doing something different I'm thinking, but if I was in Hooker and I didn't have any sales, I would certainly be borrowing them from the surrounding counties and see what I could find and see what gives me some indication of what that home site value is. Because the home site should also reflect...your home site is the land that it...that first acre so you had to purchase it. It also includes some improvements. It includes a well, it includes a septic system. Those

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things have value. So how can...I mean, it's got to be the same to do a well in Hooker County. It can't be that much different in Hooker than it is in Platte. [LB1037]

SENATOR DAVIS: It's the same well driller. (Laughter) [LB1037]

TOM PLACZEK: Yeah, exactly. I mean, so I saw that too and I was like, hmm, I'm questioning some of this data. [LB1037]

SENATOR DAVIS: And even in the metropolitan areas, there's some significant variations. [LB1037]

TOM PLACZEK: Sure, sure. [LB1037]

SENATOR DAVIS: I think that leads into Senator Sullivan's question is, is there a big problem here? Which doesn't really relate to Senator Brasch's bill, but it's more an issue of fairness. [LB1037]

TOM PLACZEK: Right. Yeah, in some ways I think we're trying to use a hammer to smash an ant. I just don't...I just think it's a little heavy-handed myself. I really think that, you know, yeah, there's cases where I see Sarpy at \$56,000. I said, well, again, I don't have the data. I'm not going to judge him. It seems high, but that's a pretty active market too, so I'm not sure what he's using. The other thing that I think will change values too is, Platte County is kind of unique. We don't have zoning outside the city of Columbus. So in...I can go out to rural, I can buy a half acre tract, I can buy a thirty acre tract, I can buy whatever. It doesn't matter. Nobody says anything about it and it's kind of the way of the frontier, I guess. Most counties have zoning of some type. That may affect the valuation and maybe that affects this in some ways that I don't totally understand because I don't have to work with it. I feel fortunate, I don't. (Laugh) [LB1037]

SENATOR DAVIS: Thank you. [LB1037]

TOM PLACZEK: You're welcome. [LB1037]

SENATOR GLOOR: Senator Scheer. [LB1037]

SENATOR SCHEER: Thank you, Senator Gloor. I realize it's getting late. I'm just...real quick. I looked on that map. I couldn't find anything other than BH. Do you know where that map

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originated? And she's not here, so I can't ask. Oh, well, then I can get it from her. I was just curious where the... [LB1037]

TOM PLACZEK: That I don't know exactly. The map I got and I assume it's very similar to yours is...yeah, it might be colored differently but looks the same. I got it at a meeting we had at the Department of Revenue with Ms. Sorensen and staff, so. [LB1037]

SENATOR SCHEER: Okay. Thank you. [LB1037]

TOM PLACZEK: They put it together. [LB1037]

SENATOR GLOOR: Seeing no further questions, thank you, Tom. [LB1037]

TOM PLACZEK: Thank you. Appreciate it. [LB1037]

SENATOR GLOOR: Anyone else in opposition? Anyone in a neutral capacity? Senator Brasch, would you like to close? [LB1037]

SENATOR BRASCH: In closing, some good questions were raised. I want to thank everyone who testified today. And Senator Scheer, I was glad to hear you say that you were for property tax relief. You've been an advocate and this is not a complete solution, but it is looking at some clarification, some uniformity. This goes before the TERC board. Perhaps we can add an amendment to some of the concerns that you may see here. Again, as far as loopholes and things like that, we are the anti-loophole committee I believe. (Laugh) And the offenders of this, it works both ways. Perhaps somebody moved to a beautiful acreage and they decided to grow some grass and call themselves a full farming operation. You know, we need to define. This is where I believe the word "purpose" is important here. And I think this will be helpful. And are there any other questions that I can help resolve in your mind? Yes, Senator Davis. [LB1037]

SENATOR DAVIS: I just want to know what kind of grass you're growing, Senator? (Laughter) [LB1037]

SENATOR GLOOR: That's a different committee. [LB1037]

SENATOR BRASCH: Yeah, thank you. And I would suggest many of you to also play poker. I could read your faces very clearly. (Laughter) Hold your cards closer too, please, so. Thank you so much. Any other question? And you know, the horticultural brome. [LB1037]

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SENATOR GLOOR: (Exhibits 3-10) Let me read in some letters that were here. Proponents: Larry Timm, farmer, Sarpy County; Rod Hollman, farmer, Martell; Evelyn McKnight, Fremont; Virginia Miller, landowner, Sarpy County; Wayne Fedde, landowner, Gretna; Connie Anderson, farmer, Sarpy County; and Jim Warren, Sarpy County commissioner. Opponents: Diane Battiato, Douglas County Assessor/Register of Deeds. And that will end our hearing on LB1037. Thank you. And I would ask if you would all please move your conversations outside, this committee is continuing to meet on some other issues. Thank you. [LB1037]