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Revenue Committee
January 19, 2017

[LB12 LB20 LB51]

The Committee on Revenue met at 1:30 p.m. on Thursday, January 19, 2017, in Room 1524 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LB12, LB20, and LB51. Senators present: Jim Smith, Chairperson; Curt Friesen, Vice Chairperson; Lydia Brasch; Mike Groene; Brett Lindstrom; and Paul Schumacher. Senators absent: Burke Harr and Tyson Larson.

SENATOR SMITH: We're going to get started today for today's hearings. Welcome to the Revenue Committee public hearing. My name is Jim Smith. I represent District 14 in Sarpy County and I serve as the Chair of the Revenue Committee. The committee will take up the bills in the order that's posted on the outside of the room. Our hearing today is your public part of the legislative process. This is your opportunity to express your position on the proposed legislation before us today. To better facilitate today's proceeding, I ask that you follow a few procedures. First, would you please turn off your cell phones and other electronic devices. For those wishing to testify, if you would move towards the front of the room so that you're ready to testify when the chair opens up. The order of testimony is that we will first hear from the introducer of the legislation, then we will hear from proponents, then opponents, then those wishing to testify in a neutral capacity, and then there will be closing remarks by the introducer of the bill. If you will be testifying, please complete the green form and hand it to the committee clerk when you come up to testify. If you have written testimony or exhibits for the committee and you would like those distributed to the committee, please hand them to the page for distribution. We will need 11 copies for all committee members and staff. If you do need additional copies, just let the page know and we're more than happy to make those copies for you. When you begin to testify, you will need to spell your name for the record. That's so that the transcribers can make certain they get it accurately into the record. Please be concise with your remarks. It is...we typically will hold testifiers to five minutes and we will use light system. The light is green for four minutes. Then it will turn to yellow for one minute, and then it will turn to red. And if you are still making remarks when it turns to red, we just simply ask you to try to close your remarks and find a good point to close. If you would like your position to be known but do not wish to testify, please sign the white form at the back of the room and it will be included in the official record. We ask that you speak directly into the microphone so that the transcribers are able to hear your testimony clearly. The microphones are not to project your voice but rather for the transcribers to record and to put into the record your testimony. So now I'd like to introduce the committee staff. To my immediate right is legal counsel, Mary Jane Egr Edson; to my immediate left is research analyst, Kay Bergquist; and to my left at the end of the table is committee clerk, Krissa Delka. The committee members with us today I will let them introduce themselves with the exception: Senator Larson is absent today. He will not be joining us. And then I will let Mr. Groene introduce himself.

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SENATOR GROENE: Senator Groene, District 42, Lincoln County, North Platte.

SENATOR LINDSTROM: Senator Brett Lindstrom, District 18, northwest Omaha.

SENATOR FRIESEN: Curt Friesen, District 34, Hamilton, Merrick, Nance, part of Hall County.

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

SENATOR SCHUMACHER: Paul Schumacher, District 22. That's Platte and parts of Colfax and Stanton County.

SENATOR SMITH: And Senator Burke Harr from Omaha is part of the Committee. He is absent from the Legislature today. Our pages are Alexi from Milwaukee, Wisconsin, and Sarah from Topeka, Kansas. And we appreciate them being with us today and helping us out. Please remember that senators may come and go during the hearing as they have bills to introduce in other committees. I'd also like to remind our committee members to speak...for themselves to speak directly into the microphones for the transcribers. And then lastly, we do sometimes use electronic devices among committee members. We receive information on the legislation that's in front of us both in paper copy and in electronic version. So from time to time you may see them referencing their electronic devices. But please rest assured that we're here to listen to you and give you our full attention. So with that, thank you all of you for being here today. And the first bill that we will be hearing is LB12 introduced by Senator Bob Krist. And the bill is to change the homestead exemption requirements relating to income statements and certifications of status. Welcome. [LB12]

SENATOR KRIST: Thank you. Good afternoon, Senator Smith, members of the Revenue Committee. For the record, my name is Bob Krist, B-o-b K-r-i-s-t. I represent the 10th Legislative District in northwest Omaha, north-central portion of Douglas County which includes the city of Bennington. I appear before you today in introduction of LB12, which I introduced at the request of several of my constituents. To preface, please note that the fiscal has a zero on it. But I will refer the fiscal analysts...to your analysts. There are some notes on there that and I think are appropriate in terms of potentially an error in drafting that may have referenced one section of law and not another. So to that, Mr. Chairman, I would say if this bill goes forward those things need attention and probably need to be fixed before we create some unintended consequences. In 2014, the Revenue Committee advanced and the Legislature approved and Governor Heineman signed into law a priority bill that session, LB1087, which provided a homestead exemption to disabled service connected veterans. That bill became effective in 2015, only a couple of years ago. LB12 simply allows veterans and their un-

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remarried surviving spouse who own a homestead exemption under that law to be exempt from certification requirements. It is completely, in my opinion, unnecessary and to require the disabled veteran or their unmarried surviving spouse to perpetually file annually in order to keep the exemption. Others may disagree and I'm sure you'll hear from them today. Those who are interested in raising taxes may possibly oppose this bill, but I believe it's good legislation worthy of being considered, particularly when it's a reduction in the work force I think at the county level. The state of Iowa currently is...follows this practice. It requires a one-time filing for veterans and un-remarried spouses and it makes I think the government more efficient and effective. Just for form of reference, there's approximately 3,400 disabled veterans and spouses who qualify under 77-3506, and less than 50 of those spouses of service members who were KIA, or killed in action. With that, I would stand for any questions and I would also waive my closing as I need to return to my committee. [LB12]

SENATOR SMITH: Okay. Thank you, Senator Krist. Do we have any questions from the committee for Senator Krist? I see none. Thank you very much. [LB12]

SENATOR KRIST: Thank you, Chairman. Thank you for your attention. [LB12]

SENATOR SMITH: We now invite proponents of LB12 to come forward and provide their testimony, proponents of LB12. I see none. Do we have opponents, those wishing to...oh, is this...are you a proponent? [LB12]

GREG HOLLOWAY: Neutral. [LB12]

SENATOR SMITH: Okay. All right, opponents of LB12, those wishing to testify in opposition to LB12. Welcome. [LB12]

TOM PLACZEK: Good afternoon. Chairman Smith and members of the committee, my name is Tom Placzek, P-l-a-c-z-e-k. I am the Platte County Assessor and I represent the Nebraska assessors and legislative rep to NACO for them. I am testifying against this bill for...it's a very simple reason. We are not against the veterans. Don't...I don't want anybody to interpret that. We just feel that we need to have the documentation. Status changes for these people throughout the year. People pass away. We may not be aware of it. They may be going into a home and other people may be living there. We just need to know, like any other homestead, that we have some documentation on it so we know exactly what the status. We're not asking for any change in the...they currently...if...once they receive their VA letter that gives them the 100 percent disability, we've got that on file and they don't have to do that again and have to go through that. That used to be quite the process and that has been eliminated. All we're asking them now is just to fill out the application. We send the application to them probably half to three-quarters filled

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out already. They have to answer six questions, sign it, and send it back to us and they've got five months to do it. I don't think a 44-cent stamp and taking two or three minutes of your time to answer this question is too much to ask when they're receiving several thousand dollars in a tax benefit. We have approximately 10 percent of our homestead applications are of this type which in Platte County is...we have a 800 homesteads. So that's somewhere around 80-100. I can only imagine for Douglas County and Lancaster County how many they have and the problem it would cause. So our whole basis is that we need to be able to stay on top of this and it's worked well in the past. We've never had one complaint from a veteran that this has been onerous, has been an issue with them, they have trouble with it. It just hasn't been a problem and I don't think it's too much to ask to have this documentation done and sent to us. And with that, I really have nothing else to add. [LB12]

SENATOR SMITH: Do we have questions from the committee? I see...Senator Groene. [LB12]

SENATOR GROENE: Thank you, Chairman. This was on a homestead in my home county where the husband died, the son lived with him, the wife died, and then the son wanted the homestead exemption. He was a new owner. Our county assessor caught it and there was a suit and everything. But you're telling me if that were to happen with a veteran, you wouldn't know the son was just living there. [LB12]

TOM PLACZEK: Yeah. We'd have no idea. [LB12]

SENATOR GROENE: And he wasn't a veteran. [LB12]

TOM PLACZEK: Right, correct. [LB12]

SENATOR GROENE: This is the only way you know that. [LB12]

TOM PLACZEK: Right. You're very correct. And I'm not saying this happens all the time, but with...I think it's only fair that it's...we have that documentation to stay on top of it just like we do any other homestead. And the homestead is...it isn't out of the county's pocket. The state pays for that. And we're in lean times. We can't afford to give away anything. And we just need to stay on top of it. That's all we're asking for. [LB12]

SENATOR SMITH: Senator Schumacher. [LB12]

SENATOR SCHUMACHER: Thank you, Chairman Smith. You mention in your testimony...and thank you for coming down and testifying today. [LB12]

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TOM PLACZEK: You're welcome. [LB12]

SENATOR SCHUMACHER: You mention in your testimony, and I don't know if I jotted down right, something about 800 homesteads and 80 of them are affected here or something. [LB12]

TOM PLACZEK: Correct. [LB12]

SENATOR SCHUMACHER: Is that all there is in Platte County is 800 homestead exemptions? [LB12]

TOM PLACZEK: That's about right, yes. [LB12]

SENATOR SCHUMACHER: And that's for basically elderly people and these kind of things. [LB12]

TOM PLACZEK: Correct. [LB12]

SENATOR SCHUMACHER: But 10 percent of them are affected by this program? [LB12]

TOM PLACZEK: Yes. [LB12]

SENATOR SCHUMACHER: That many people claiming to be 100 percent disabled vets? [LB12]

TOM PLACZEK: These are...gosh, there's several...I went just through yesterday morning. I thought, wow, there can't be this many. And my staff works primarily with the homestead applications. But I was going through it with one of my staff members and I got through...and the book is this thick...of the list. I went through just a few pages and I found four or five and I hadn't even gotten through the first third of A. So I got to believe there's just lots of them. And the people that...and I'm not saying they're not entitled to it, but I'm surprised at some of them that do receive it. But the VA has decided that they are 100 percent exempt and they reach...they fit the criteria and we have no say in that matter. So if we get that letter, they're good to go. So it's a lot more of an extensive list than a person realizes. [LB12]

SENATOR SCHUMACHER: But when we pass and okay some of these exemptions, we do it on the basis of guesstimate or an estimate of how much of an impact it would be and kind of judge from that how much it's going to hit the state coffers. From what you just said, this may be one

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of those that is more than what we thought it would be. And there's several of those kind of things out there. [LB12]

TOM PLACZEK: I would totally agree. [LB12]

SENATOR SCHUMACHER: Okay. Who maintains the records as to how much this...and I understand that the VA's formula for 100 percent is quite liberal. [LB12]

TOM PLACZEK: Correct. [LB12]

SENATOR SCHUMACHER: Who would maintain the records of how much this particular exemption is costing us? [LB12]

TOM PLACZEK: We do send the homestead forms to the Department of Revenue and I'm sure they have a breakdown as to how much...they may...I shouldn't throw them under the bus. They may be able to break that out as to type, whether it's just a regular homestead, whether it's a veteran, whether it's developmentally disabled. You know, they can probably break it out that way. I don't know. I've never done that, but if you take 80 at, let's just say, \$2,000 in taxes, tax money, you're talking a lot of money and that's just Platte County. So it adds up considerably. [LB12]

SENATOR SCHUMACHER: And we expanded this last year to include the spouse, the healthy spouse of a deceased disabled veteran. [LB12]

TOM PLACZEK: Correct. [LB12]

SENATOR SCHUMACHER: Thank you. [LB12]

SENATOR SMITH: Thank you, Senator Schumacher. Other questions from the committee? I see none. Thank you for your testimony today. [LB12]

TOM PLACZEK: Thank you. [LB12]

SENATOR SMITH: Other opponents of LB12, opponents. Seeing none, we now move to neutral testimony, those wishing to testify in a neutral capacity on LB12. Welcome. [LB12]

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GREG HOLLOWAY: Good afternoon, Senator Smith and Revenue Committee. My name is Greg Holloway, G-r-e-g H-o-l-l-o-w-a-y. I represent the Disabled American Veterans Department of Nebraska, Vietnam Veterans State Council as their legislative person, and also I'm on the committee for the Nebraska of Veterans Council, past chairman of all those organizations. And I represent them on a lot of their legislative issues also. We have yet to meet. We're meeting tomorrow on a lot of bills. That's why I'm testifying in a neutral capacity, because I think there are some misconceptions on this bill and they might need to be researched a little bit, some of the discussion from the opponent. I was a county veteran service officer and actually the homestead exemption bill that was passed into law is the one I asked to be introduced and supported that bill extensively. In my understanding, this bill is for DIC recipients. That's my understanding of the bill, which is a spouse of a 100 percent service connected disabled veteran. And to us, service connected disabled veteran had to be determined either died of a service connected disability to be eligible or died while...after he's been 100 percent ten years or died in military service. Also, the senator asked a question about if their son was living in the property and he was also a veteran. [LB12]

SENATOR GROENE: No, he wasn't a veteran. [LB12]

GREG HOLLOWAY: He wasn't? He would not be eligible for the homestead exemption as a result of that unless maybe he was considered a helpless child before he reached the age of 18. So there might be some complications there that would make him eligible. But I'm not sure of that. So I'm kind of testifying in a neutral capacity on this because I'd like to understand it more and will bring it up before my Veterans Council meeting on our discussions. I'll have John McNally from John Hilgert's office help me with it, understand it a little bit better. And then we would send a letter from the Nebraska Veterans Council to this committee saying whether we oppose it or we are in favor of the bill. I understand homestead exemption very well. I feel that. I was service officer for Lancaster County so I took care of a lot of homestead exemptions. And if I'm looking at this bill right it's for DIC recipients and that's the spouse of a veteran that was 100 percent service connected or died while he was in service. So if you have any questions, I sure could try to help you answer them. [LB12]

SENATOR SMITH: Okay. Do we have questions from the committee for Mr. Holloway? I see none. Thank you for your testimony. [LB12]

GREG HOLLOWAY: It's not such a bad, bad thing. It might make it a little bit easier and I...it's up to the county assessors pretty much to kind of sort out, you know, whether they need it or not. But they can get that information. [LB12]

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SENATOR SMITH: And once you do that additional research and you have more input for us, that will be greatly appreciated. [LB12]

GREG HOLLOWAY: I'll make sure that this committee gets some sort of a letter whether we...because I want to look at it a little bit more. I haven't really had time to look at it very much. [LB12]

SENATOR SMITH: Very good. Thank you for your testimony. [LB12]

GREG HOLLOWAY: Thank you. [LB12]

SENATOR SMITH: Others wishing to testify in a neutral capacity on LB12. (Exhibit 1) We do have a letter to read into the record that is presented in a neutral capacity and that is from Diane Battiato, Douglas County Assessor and Register of Deeds. And Senator Krist has waived his closing, so that concludes the hearing on LB12. We now move to the hearing on LB20. And LB20 is legislation introduced by Senator Kolterman and it regards change in provisions relating to the homestead exemption certifications. Welcome. [LB12]

SENATOR KOLTERMAN: (Exhibit 1) Thank you. Good afternoon Chair Smith and members of the Revenue Committee. I'm Senator Mark Kolterman, M-a-r-k K-o-l-t-e-r-m-a-n, and I represent the 24th District in the Nebraska Legislature. I'm here to introduce LB20, a bill that changes provisions relating to homestead exemption certifications for nonservice disabled veterans. Currently veterans who are discharged or otherwise separated with a characterization of honorable or general under honorable conditions and who are totally disabled by a nonservice accident or illness are required to annually submit certification of their total disability to the county assessor in order to qualify for a homestead exemption. I passed out a tax form 458B and highlighted the section that this bill references. LB20 will allow this classification of veterans to not be required to submit certification in succeeding years if no change in medical condition has occurred except at the discretion of the county assessor or Tax Commissioner. This bill will help alleviate some hardships for totally disabled veterans and can save time and money for someone who might be living on a very tight budget. There are some veteran groups here today to speak in favor of the bill. Thank you and I'd be happy to answer any questions. [LB20]

SENATOR SMITH: Thank you, Senator Kolterman. Do we have questions for Senator Kolterman from the committee? I see none. Will you remain for closing? [LB20]

SENATOR KOLTERMAN: I'm going to try. I've got a bill up in HHS. [LB20]

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SENATOR SMITH: Okay. Thank you. We now move to proponents of LB20, those wishing to testify in support of LB20. Welcome. [LB20]

GREG HOLLOWAY: This is a nice, small room today. [LB20]

SENATOR SMITH: Welcome again. [LB20]

GREG HOLLOWAY: Thank you. Greg Holloway, G-r-e-g H-o-l-l-o-w-a-y. I live in Seward County. The Seward County Assessor, when I was checking on some of my homestead exemption stuff in my home, asked me to get a hold of Senator Kolterman and fix the problem of non-service connected veterans. Now there's not very many out there that actually own homes. But the reason you're a non-service connected veteran is because you're totally disabled as a result of some injury that is not service related. So there's a few of them out there and a few of them own homes. Well, she told me that if you're on a disability on homestead exemption, you only have to have a physical taken every five years. But a veteran has to be recertified by a physical every year. She says it's kind of wrong. And a veteran has to have...a non-service connected person, your income is based on income. So if you're on Social Security Disability it reduces your non-service connected pension and vice versa. So your income is pretty low to start with and any funds expended for a physical is money that you could be putting into groceries on your table. So she asked me to bring this forward, so I talked to Senator Kolterman and we wrote it up. I sent the bill to our county assessor before we got it introduced. And they said sounds good to them. So there we are. So I think this is a good thing for non-service connected veterans and as...looking after disabled veterans is my job through the DAV and the VVA, I think this should...it's a no-brain. No cost. This won't cost anybody any money. Actually it saves a veteran a few dollars because the VA will not give them a physical for these types, so they have to go to some sort of private doctor. And they might be on Medicare or service connected disability. But odds are it's going to cost them a little bit of money out of their time. We just kind of correct this. They could utilize the same letter a service connected disabled veteran, which is the homestead exemption letter received from the U.S. Department of Veterans Affairs and utilize that, that they're still in...receiving federal benefits for non-service connected disabilities. Simple, easy, I say a no-brainer. So, thank you for listening to me on this one again. I'm not bringing any bills before you this year related to veterans that cost money. (Laughter) I have in the past, lots of them, and I'm not bringing any this year--anyway, this session. We'll wait until after you guys figure out the budget. Then I have one. [LB20]

SENATOR SMITH: Thank you, Mr. Holloway. [LB20]

GREG HOLLOWAY: All right. [LB20]

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SENATOR SMITH: Do we have questions for Mr. Holloway from the committee? Senator Groene. [LB20]

SENATOR GROENE: So you're a veteran and you're perfectly healthy and 20 years later you fall off the roof and you get totally disabled. [LB20]

GREG HOLLOWAY: Yes. [LB20]

SENATOR GROENE: Why does the fact that you're a veteran have anything to do with that? Why wouldn't you just go Social Security Disability? [LB20]

GREG HOLLOWAY: Well, to tell you the truth, I'm not 100 percent sure of that. But sometimes Social Security...Social Security and veterans' benefits actually do not talk. There are many, many differences and what their qualifications for drawing service connected disability, non-service connected disability, or Social Security Disability. So you might be eligible for something on this. When I was a county veteran service officer, I had a veteran who had no education whatsoever, broke...hurt his back to the point where he couldn't...he was a truck driver. He was not eligible for Social Security Disability because he was young. He was still in his 40s. So they were going to deny because they think you could work if it's selling pencils on the corner. So I got him on non-service connected pension which would give him \$1,200 a month and if he gets on low-income housing he can actually live. So there's a lot of differences there, not necessarily...if you're below an age group then Social Security is not going to mess with you, you know, until they figure you're just...I mean if you've got all your arms and legs gone then they might consider it. But for somebody that's just got a bad back he can't...and the only profession that he knew was driving a truck and so he could not go in through the VA to be retrained to do something else. He had no education. So there are people that fall in those categories. And he might have been a homeowner while he was driving a truck making good money. Then all of a sudden he has that...his income has gone down from we'll say if you drive for Walmart that's \$50,000 a year you're making to less than \$1,200 a month possibly. That's a big income difference and to keep your home if you might be able to have the homestead exemption process to do it, at least keep you in your home and not become homeless veteran, depending on the state to live and other people then. I hope that answers your question. [LB20]

SENATOR GROENE: I guess. [LB20]

GREG HOLLOWAY: I try not to do it too roundabout. [LB20]

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SENATOR SMITH: Okay. I see no further questions. Thank you, Mr. Holloway, for your testimony. [LB20]

GREG HOLLOWAY: Thank you. [LB20]

SENATOR SMITH: Any additional proponents of LB20? Anyone wishing to testify as an opponent, in opposition to LB20? Anyone in a neutral capacity to LB20, neutral capacity? Welcome. [LB20]

TOM PLACZEK: Welcome again. Tom Placzek, P-l-a-c-z-e-k, Platte County Assessor representing Nebraska Assessors. We are neutral on this bill. As the gentleman had testified earlier, there are very few that fall into this category. I can't think of any in Platte County but I'm sure there's one or two. And my only...and I guess I agree with the Seward County Assessor on this, that for other people that have medical exemption, once that's been received they don't have to get recertified every year. And so from our standpoint, we see that as just being fair and treating that particular segment the same way they would get it in other circumstances. I'm not sure why they shouldn't get it here. They would qualify so it doesn't change anything from a standpoint of any monies. And they still have to do the application so we can document that. So in our opinion, this is strictly an issue of fairness. It is done the same way as for any other veterans or any other disabled people. So again, it doesn't affect very many people. So as assessors we're somewhat a neutral on it. But I want to just bring attention to that, the information. [LB20]

SENATOR SMITH: Thank you, Mr. Placzek. Do we have questions from the committee? I see none. Thank you. [LB20]

TOM PLACZEK: You bet. Thank you. [LB20]

SENATOR SMITH: Others wishing to testify in a neutral capacity on LB20. Seeing none, Senator Kolterman waives closing and that concludes the hearing on LB20. We now move to the next bill, LB51 introduced by Senator Schumacher, relates to changing provisions relating to sales of real property for nonpayment of taxes. Welcome, Senator Schumacher. [LB20]

SENATOR SCHUMACHER: Thank you, Senator Chairman Smith, members of the Revenue Committee. To start out on this, my name is Paul Schumacher, S-c-h-u-m-a-c-h-e-r, representing District 22 in the Legislature and bringing you LB51 today. To start out with a brief overview of our real estate situation and how we collect taxes on it: real estate, ownership of a parcel of land is not an ownership of the dirt but an ownership of an estate in the land--a packet of rights

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granted by the state, or in some cases a patent by the federal government, that is delineated by geographical coordinates and may be limited in time. So it's a packet of rights and that packet of rights comes with certain obligations, certain reservations, so to speak. One is state reserves the right to regulate it. State reserves the right to extract taxes from it. State owns the water under it. So that's package of rights. What we do when a state or county, acting under the authority of the constitution, extracts taxes from it is it levies the taxes. And the taxes are then a thing owned by that parcel of land or real estate. And they're supposed to be paid according to a schedule. And if you don't pay them according to the schedule, the county has a mechanism where it sells those taxes. And it's kind of confusing because I never could figure out why anyone would want to buy taxes. We usually want to get rid of taxes. But nevertheless, it sells that debt that is owned to the state. And it sells that debt by means of issuing a certificate, essentially a buyer buys...comes in and says I'll pay those taxes and the county then gives them a certificate that they paid those taxes. And that certificate carries with it interest. And the interest that it carries is at a rate now of 14 percent per year. Now because of the very nature of taxes, that's essentially a first mortgage on the property, comes even before the bankers. And how the Bankers Association ever let that happen I'm not sure. But it even comes before them. It's a first priority. So it's a good, good loan, so to speak, on the property at 14 percent interest. When...and then when the holder of that tax sale certificate, that tax bill has got to sit on it basically for three years from the point it became delinquent. So there is a three-year grace period during which the person who owns the property can pay off the taxes and that probably dates back to the Depression days where nobody wanted to lose their property. Many states have a much shorter fuse than three years. But that's what we have in Nebraska. We've got a three-year fuse in which the owner can go pay the taxes for his property. If the owner does not pay the taxes, there's a couple of mechanisms by which the holder of the certificate can collect the taxes and the 14 percent interest, one of which is I think called a treasurer's deed where the treasurer actually deeds the property to the person holding the certificate. The quality of that title if there's any problems or issues with it may not be good. Or the tax sale certificate can be treated as a loan and taken into court and foreclosed as a loan where the owners of record of the property, any bankers who have got something on the property are all basically sued and said, look at, the owner of the certificate has got the money coming plus interest plus court cost plus administrative fees of if they had to do an appraisal or something like that. And the judge looks at the situation. If he agrees that it's all valid, orders the property sold. Money first comes to pay off the tax sale certificate, then any bankers, and finally if there's anything left over, to the person. Now if those tax sale certificates don't sell and in the 1980s, a time when I was county attorney, when interest rates actually that people were paying at the bank might have been above 14 percent, they may have been choosing to pay the 14 percent instead of pay the...what they'd have to pay if they borrowed the money to pay it off at the bank. And thus in those days the county attorney got, under the law, if the county attorney doesn't do it, the county attorney is thrown out of office. So it's one of those things that you kind of respected. Filed, is responsible for collecting them, and has a limited number of days in which to bring the foreclosure action in the district court to collect it. Now in the real world what happens is the

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county attorney or in the case of a private party that purchased one of these, first thing they do is they contact the person because nobody wants to file a lawsuit and everyone wants to get off with the minimum number of work. And you contact the person and say, hey, you, the end is near. We're going to foreclose on the property. High, high percentage of the cases say whoops, okay, we'll pay. If that doesn't work you contact the banker because usually there's banker involved somewhere. And the banker does what bankers do to people and the banker pays it off, adds it onto the loan, and something is worked out. So the number of cases that actually go through a court case are extremely low and usually represented by worthless pieces of property, okay. Now in the system that we have now, the 14 percent interest--huge interest, huge--goes to the party that buys these certificates and they are highly...they're prized items. They are...they sell rather easily, unless they're on a totally garbage piece of property. In fact they're so popular, these sales, that the Legislature set up a round robin kind of bidding thing where you went and stood in line and you have to bid because there's so many people wanting it. So that's how they divvied up the bids in this procedure that's in the statutes. So when you can see you take money and put it in a bank something first mortgage quality property, you know, or that kind of security, you get very little interest now. This is a big deal. In fact, it's too good a deal. So we have two ways that we might deal with it. One might say, you know, why do we have 14 percent interest to begin with? Why don't we just lower it to 7 percent or 2 percent above the prime rate or some other standard? And the argument is...and that's certainly a legitimate question. In fact, I think once upon a time I've even brought a bill trying to do it that way. The argument is that, look at, there should be an incentive for people to pay the tax. And the 14 percent number is an incentive, almost carries a near punitive nature, to pay the tax and not get yourself into trouble by letting your taxes go on at all and all of a sudden get that call from the county attorney or the attorney for the purchaser of the certificate saying the end is near. Pay the tax, go take out a loan at the bank, do what you need, don't get behind, okay. That's the argument basically against just reducing the rate, plus I think reducing the rate also has some impact by the way it's written into the law with the interest that is due on Workman's Comp, with judgments, and things like that. So this bill, knowing that the counties are hard up for money and knowing that any dollar we can get to a county might, hopefully will, become a dollar in property tax relief says this. At the auction we start out with the 14 percent. And then if they are competitive bidders, we bid it down. Anybody take the certificate for 13.5 (percent)? For 13 (percent)? And you it get down to where the market determines is a fair rate for that certificate. Say it is up at 7 (percent) or 8 percent where it probably would end up now, particularly on a piece of property that isn't a garbage piece of property. Okay, that, if it's at 7 (percent) for easy figuring, half of the 14 percent goes to the purchaser of certificate. The other half goes to the county. So they're still paying the 14 percent from the delinquent taxpayer's point of view, but the certificate is sold at market rates interest, say in this example 7 percent, and the county gets the other 7 percent. And it's a pretty simple proposition. There is also a provision in there that makes it illegal for the bidders to get together and say, look at, we'll all just share the bids and let's keep it at 14 percent and we won't bid against each other. You'll bid on this one, I'll bid on the next one, Senator Smith will bid on

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the next one. So that's the idea. Now I've spoken this morning--this hearing came up a little faster than when I thought it was going to come up--and I spoke this morning with the Lancaster County Treasurer and with NACO. I think they're here to testify. They have some useful suggestions for making the bill easier to implement should the committee decide to think that it's meritorious. And I'm certainly in agreement with them that we can we can tweak it with reference to the nature of the proceedings they seem to feel that...to have a clear distinction of the proceedings. For example, when the bid down occurs, do you bid down in tenth of a percentages or half a percentage. You don't want county doing it one way and another county doing it the other. And it apparently is helpful to the purchasers of these certificates to have a uniform thing because they're in the business of making money this way and often the same outfit is bidding in several counties and it would be very confusing to have the discretion in the bill for a different mechanism at the auction. So I'm perfectly agreeable to work out an amendment that incorporates those. But it's a source of revenue. Fourteen percent is an extraordinarily good rate of interest for first mortgage property now and the collection expenses are minimal because most of them flush out well before actually having to file a lawsuit. That's...with that, I submit my proposal to the committee. [LB51]

SENATOR SMITH: Thank you, Senator Schumacher. Senator Friesen. [LB51]

SENATOR FRIESEN: Thank you, Chairman Smith. Senator Schumacher, when they have these, the process now, can anybody, can I walk in there and be part of that? I don't have to be certified or anything? If I've got the checkbook I can go in and purchase these delinquent taxes. [LB51]

SENATOR SCHUMACHER: Right. You probably just don't want to walk into the sale. Most of them, what you probably want to do ahead of time is go look through and make sure you aren't buying a garbage piece of property so that if it came time to collect you could actually collect your money. You'd want to do a little due diligence to make sure the property that you have, there wasn't something terribly wrong with it. It had a lot of asbestos on it. For some reason you cannot sell or something like that. But yeah, there's no license required to bid on these things. [LB51]

SENATOR FRIESEN: The potential is that you could own that property and anything that's wrong with it is yours to deal with. [LB51]

SENATOR SCHUMACHER: Right. And you may not get your tax money out if it's a garbage piece of property or some big defect. Risk is reasonably pretty low, but as anytime you're parting with money you want to do a little bit of due diligence. [LB51]

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SENATOR FRIESEN: So there could be environmental hazards hidden there though that you're...there is some risk involved. [LB51]

SENATOR SCHUMACHER: Yeah, there is risk. Yes. [LB51]

SENATOR FRIESEN: Amateur to go in, you would know...want to know what you're doing. [LB51]

SENATOR SCHUMACHER: Right. And you...I think it's not any more sophistication than needed if you're going to buy any piece of property. But you put money at risk. And even though taxes are a small percentage of the value of the property, normally anybody doing that and parting with that money will do a little due diligence and make sure that, yeah, absolutely. [LB51]

SENATOR FRIESEN: So the new process is no different, only you're bidding it down to where the interest rate, where you feel you're going to still make money and the other guy quits, you end up with it. [LB51]

SENATOR SCHUMACHER: Exactly. You let the market determine. And if interest rates...well, they won't do it because the federal government will go bankrupt if it happened, they won't go back up to 14 percent at the bank where you have the problem where I think we'll just let the county loan us some money that we had in the 1980s when interests rates at the bank were 14 percent, 15 percent, 16 percent. But yeah, you let the market determine what's a good rate of interest. And quite frankly, probably I'd be surprised if it doesn't, on good property, come out at 7 percent, 8 percent. [LB51]

SENATOR FRIESEN: Okay. Thank you. [LB51]

SENATOR SMITH: Senator Brasch. [LB51]

SENATOR BRASCH: Thank you, Chairman Smith, and thank you, Senator Schumacher. The 14 percent is the tax penalty rate, correct? [LB51]

SENATOR SCHUMACHER: It's the interest rate on delinquent taxes, yes. And that's fixed by statute. [LB51]

SENATOR BRASCH: Yes, okay. Is it by statute or is it by the Revenue Department? [LB51]

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SENATOR SCHUMACHER: By statute. [LB51]

SENATOR BRASCH: When was the last time that statute was changed? [LB51]

SENATOR SCHUMACHER: I think...it's a long time ago. It think I was back in '80s because at maybe one point in the '80s it was like 9 percent, or it could have been the '70s. And that really encouraged the practice of just not paying your taxes because it's more expensive to... [LB51]

SENATOR BRASCH: Well, and I think I was at the Revenue Department when that happened is why I'm thinking that. And at that point is when the interest rates were extremely high at 20 percent, 18 percent. And they adjusted it from a low 9 (percent)--you're correct--to the 14 (percent). And so now I'm wondering why that's not being changed by statute to reflect interest rates are very low at this point, high being 5 percent. But you're going after a whole different hunt here in getting more money because I think that seems like an extremely high penalty rate compared to what it's been historically. [LB51]

SENATOR SCHUMACHER: It is very high, Senator. And I think, if I remember right, I brought a bill trying to address that up and it was one of my super duper bills that went nowhere. But yeah, it is high. And this is kind of a way to say okay. I mean the argument was, look, we need this penalty factor to encourage people not to become delinquent. That's certainly a way the committee could go, but I call this issue to the committee. And I think this is a way that everybody...there's still a fair rate possible, whatever the market bears on the interest, a little extra property tax relief and maybe it still retains the incentive to get your taxes paid on time. [LB51]

SENATOR BRASCH: And the original...the person who is at lost here...at loss, they get nothing, correct? I mean they have forfeited their rights to their property because of delinquent taxes, but the county will make... [LB51]

SENATOR GROENE: Three years. [LB51]

SENATOR SCHUMACHER: The county picks up...ultimately, Senator, they pay the tax. Very few is loss of property. The banker accesses the money. And this is very aggressive by the parties involved with this. Some of you may remember we've had bills on the floor where there's like a \$20 fee in order to place this bid or become a bidder. And these folks even wanted that \$20 fee to be paid by the property owner. I don't think the Legislature went along with that if my memory serves me correctly. But this is a highly profitable thing even though you probably are going hear something else today. [LB51]

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SENATOR BRASCH: I have no other questions. Thank you. [LB51]

SENATOR SMITH: I see no further questions from the committee. Thank you, Senator Schumacher. [LB51]

SENATOR SCHUMACHER: Thank you. [LB51]

SENATOR SMITH: We now move to proponents of LB51, those wishing to testify in support of LB51. Seeing none, opponents of LB51, those wishing to testify in opposition to LB51. Welcome. [LB51]

DEANA WALOCHA: (Exhibit 1) Good afternoon. Most of my argument I've summarized in the handouts, but it's lengthy so I'm just going to summarize it again for you. Senator Smith, members of the committee, my name is Deana Walocha, D-e-a-n-a W-a-l-o-c-h-a. I am in-house counsel for US Assets, LLC, and we are from Omaha. And I thank you for the opportunity to testify before you today. I am here to testify against LB51 on behalf US Assets. Our company has been in this business for 25 years and has purchased tax liens in the state for most of those years. I myself will be starting my 16th year with the company. We've purchased tax liens in 14 states over the these years and are currently purchasing in six states. We are private investors. We generally invest our own funds as opposed to managing investments for others. We employ 24 people in our Omaha office and we have nine others and offices in Mississippi and Louisiana. I think in order to best understand the ramifications of this bill currently before you it is important to briefly review the recent changes to the tax lien laws as most of you were not on this committee during this process. In 2012, this body considered in great detail different ways to administer the tax lien sales. In January of that year there were three bills relating to the tax sale process in Nebraska that went to hearing in front of the Revenue Committee. LB370 was introduced to abolish tax deeds. LB967 was introduced to lower the interest rate on tax certificates to 10 percent. LB1069 was introduced to abolish the bid down procedure and potential ownership interest in the real estate and replace the sale procedure with a system that would allow bidders to offer a premium on certificates over \$500. And finally LB1093 was introduced to provide a solution to the issue of properties that didn't sell at the sheriffs sale following the judicial foreclosure of a tax sale certificate. LB51 now proposes again to change the way a tax lien sale is administered. In February of 2012 with respect to LB370, this committee declined to abolish tax deeds. LB370 was instead amended to provide additional procedural safeguards for the property owners. This amened bill was subsequently passed by the Unicameral and signed into law by Governor Heineman on March 7, 2012. On March 21, 2012, LR514 was introduced by Senator Wightman, to do an interim study on the tax sale process which was referred to the Revenue Committee on March 30 of 2012. The three other bills that I previously mentioned were indefinitely postponed on April 18 of that year. And following the

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ending of legislative session, an interim study on the tax sale process was conducted. And out of that study came LB341. And that was enacted and signed by the Governor on May of 2013. However, its effective date was not until January of 2015, so in fact the life cycle of those tax certificates that were purchased and are affected by that bill has yet to be seen by the state. We are just in the second year of these changes in the law. I am not aware that there was any study or research done that supports the proposed changes of LB51. And I know there's been a lot of discussion of...that 14 percent is a pretty good deal but I think in order to get a true picture of that you need to look to...on the surrounding states to see with their interest rates are. We do buy in Iowa. Over there it's 24 percent per year. We also purchase in Louisiana where the interest rate is 12 percent, but there is a 5 percent upfront load in Louisiana. There are numerous states that do it allow interest bid down as proposed by this bill, however, the interest rate cannot be viewed in isolation from the remainder of the tax lien statute. Many states that allow for interest rate bid down also provide for a guaranteed return on investment. That's because these tax lien investors lose money on between 30-40 percent of the certificates that we buy. The point here is that the guaranteed return is intended to compensate the investors for those losses when the interest rates are bid down aggressively at the sale. I do not believe there's been any consideration of any sort of guaranteed return in connection with this bill. From time to time we have purchased liens in Florida. You will find in the materials that I've given you there is an article from the Florida Sentine regarding the sales in Florida and what the bid down has done to their tax lien industry in Florida and to local investors there. I would encourage you to take a look at that because what you'll see is it has driven the local investors out because it's just...it's not lucrative or it's not even something that they are...have the ability to do anymore because the interest rate is just not worth it. In any event, I think Nebraska's 14 percent rate is not out of line given the neighboring states' interest rates and especially at a time when the short term market rates are about to be increased. I'd be happy to take any questions at this point. [LB51]

SENATOR SMITH: Thank you, Ms. Walocha. Do we have questions from the committee?
Senator Groene. [LB51]

SENATOR GROENE: You said investors lose money on 30-40 percent of their investments?
[LB51]

DEANA WALOCHA: Um-hum. [LB51]

SENATOR GROENE: Give me an example of how you lose money. [LB51]

DEANA WALOCHA: Well, if you...what usually happens is you buy the certificate and then it redeems right away. In Nebraska, especially every bidder that goes to the sale, there's a \$25 fee that's nonrefundable just to attend the sale. And then...and LB341 it increased the certificate fees

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from \$10 to \$20. And those are also not recoverable by the investor upon redemption. I do believe currently they're recoverable by the county but not by the investors... [LB51]

SENATOR GROENE: So is it prorated daily, the interest rate? [LB51]

DEANA WALOCHA: The interest rate? It is. [LB51]

SENATOR GROENE: So they might come up to you right after you did it the next day and write you a check. [LB51]

DEANA WALOCHA: Correct. Yep. [LB51]

SENATOR GROENE: They have the right to pay it back at any time. [LB51]

DEANA WALOCHA: Absolutely, yeah. Anytime during that three-year period they have a right to redeem the taxes. In fact, they have a right to redeem, depending on which way the investor chooses to foreclose, if they take a...choose to pursue a treasurer's tax deed... [LB51]

SENATOR GROENE: And that's why one state you mentioned has a 5 percent up front and 12 percent after that. [LB51]

DEANA WALOCHA: Correct. Right. [LB51]

SENATOR GROENE: You'd probably like that. [LB51]

DEANA WALOCHA: That would be something we'd be willing to discuss. [LB51]

SENATOR GROENE: You're an investor. [LB51]

DEANA WALOCHA: I'm a lawyer. I don't do math. [LB51]

SENATOR SMITH: I see no further questions. Thank you, Ms. Walocha, for your testimony. [LB51]

DEANA WALOCHA: Thank you. [LB51]

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SENATOR SMITH: Next opponent of LB51. Welcome. [LB51]

LILLY RICHARDSON-SEVERN: Senator Smith and members of the committee, I'm Lilly Richardson-Severn. I'm general counsel for Guardian Tax Partners. Our...Lilly, L-i-l-l-y R-i-c-h-a-r-d-S-e-v-e-r-n. My company has been engaged in the tax industry business for about ten years. The company is heavily gauged...engaged in real estate owned properties. We're concentrating on that business. We have a sister company where we gain assets through the tax certificate process and rent the properties or do something with them after we gain them from the tax certificate. Sometimes those houses are abandoned. They have been abandoned for three or four years. They are in disrepair and they need maintenance. Sometimes we end up with burned-out houses or sometimes we just end up with a parcel of ground. Our company is experienced in other states with the tax methods including Iowa, Alabama, Arizona, Colorado, Ohio, and South Carolina. I'd appreciate the opportunity to answer any questions to help the committee better understand the tax certificate process or the pending legislation. Our primary concern is the impact the proposed legislation would have on those who engage in the tax lien industry within Nebraska and the impact on the municipalities and the taxpayers. Additionally we are concerned because changes were recently made to tax certificates that are issued after January 1, 2015, and we're not even there yet and we're talking about making more changes to that. The bid down of the percentage of interest on tax certificates for those tax certificates purchased on or after January 1 of 2015 is the process that starts next year. In the tax lien industry there are three primary types of participants on the purchase. The mom and pop, those are the people that just want to buy a few liens for personal investment. This has largely become a thing of the past due to the auction methods and competition in the tax certificate industry. The second type of buyer at a tax sale is the equity investors such as Deana's company and also our company. We are local or regional companies that are bank financed. And again, that includes our company. And then the third type is an institutional Wall Street backed investor and they're seeking large portfolios in many states. I don't say Wall Street for effect but rather because many of these investment groups are truly funded by Wall Street investment banks and hedge funds. We should look at the type of investor that best fits Nebraska, not just taking care of the larger counties that may have many certificates for sale, but many bidders who....the smaller counties that maybe don't have as many bidders and as many certificates. Local investors such as our company are able to take a local approach. We have local representatives or employees that can inspect the properties if needed. We've looked at some of the properties, see that they're in disrepair, and take some sort of action for that. Upon the expiration of the certificates, I work with the homeowners through repayment plans. I recently had one in Douglas County, and I see this a lot, the heirs of the parents were the homeowners. They passed away and the heirs lived there and never pay the taxes and never take care of the title. So in Douglas County, sons had lived there for four years. They never paid the taxes. Our company ended up with the tax deed. I worked with them and they basically were forced to go to probate, clear up the estate, get the proper deed for that. They were able to keep the house through a repayment plan. So we work also with local municipalities to rehabilitate the

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properties, properties that have code violations and that have been abandoned. We have also formed relationships with local nonprofits to facilitate the transfer of property to turn them back into a property that will be added to the tax roll. The problems that we see with outside...with changing possibly and getting outside investors to come in is they don't have the local touch such as companies that we have. We are right here in Nebraska. I like to think that we take care of the properties after we receive the tax deed. We promote local business and we would help in solving the unpaid tax problem. Other states value this approach has well. As discussed, Iowa does have a 24 percent interest rate for investors. Again, Nebraska's rate is 14 percent. Again, we're concerned with the just making the changes to the bid down process. That didn't work out so well, and now we're no longer doing the bid down process in the current sales. If you have any other questions I'd be able to address those. [LB51]

SENATOR SMITH: Thank you for your testimony. Senator Groene. [LB51]

SENATOR GROENE: I'm always curious. So you purchase the tax lien on it. You have easements to that property then? I mean it can sit abandoned for three years, right? [LB51]

LILLY RICHARDSON-SEVERN: Yes. [LB51]

SENATOR GROENE: I mean I've heard of that. Neighbors will say that's in the tax. So it can grow up in the weeds. The windows can be busted out. Nobody does anything to it for three years. You can't even find the owner of it. It just sits there. [LB51]

LILLY RICHARDSON-SEVERN: Right. [LB51]

SENATOR GROENE: For three years. [LB51]

LILLY RICHARDSON-SEVERN: Right. [LB51]

SENATOR GROENE: But you said something about you care for the property. If you can take care of it, can you have somebody mow the weeds because you have no easement to that property? You don't own it do you? [LB51]

LILLY RICHARDSON-SEVERN: Right. As a tax certificate holder, you have very limited rights just because you have a lien, a tax lien on it. So you have to wait for the three years. A lot of those houses, yes, have been sitting there. A lot of the things that I see are maybe a lender comes in, has foreclosed on it, and then has decided to bail from the property because they know it's in such disrepair. In the meantime, that homeowner has moved out. I had one that they moved

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because someone was shot in their front yard. So they just bailed from their property. Their property was foreclosed by the lender. The lender got that judgment. It went to sale but they never filed the deed. So they didn't take care of that. So the taxes then...we received a tax certificate... [LB51]

SENATOR GROENE: So the lender didn't auction it off because they would show a loss on their books because they couldn't get... [LB51]

LILLY RICHARDSON-SEVERN: Or for whatever reason. [LB51]

SENATOR GROENE: They just sat on it. [LB51]

LILLY RICHARDSON-SEVERN: The didn't find the deed. They didn't take possession. Property just sat there. [LB51]

SENATOR GROENE: Most times that's what happens, it just sits there. [LB51]

LILLY RICHARDSON-SEVERN: Yes. [LB51]

SENATOR GROENE: Thank you. [LB51]

SENATOR SMITH: I see no further questions. Thank you for your testimony. [LB51]

LILLY RICHARDSON-SEVERN: Thank you. [LB51]

SENATOR SMITH: Next opponent of LB51. Welcome. [LB51]

MARTY BARNHART: (Exhibit 2) Thank you, Senators. Marty Barnhart, Omaha Municipal Land Bank; Omaha, Nebraska; Barnhart is B-a-r-n-h-a-r-t; my first name is Marty as I said, M-a-r-t-y. I'm here today to testify against this bill for a number of different reasons, most of which lend themselves toward the Omaha Municipal Land Bank. As you know from this legislation, this is a fairly new entity in the state of Nebraska. We are now two and a half years old having been passed by the Legislature unanimously in July of 2014. The strategic plan that is before you lays out not only the acquisition and disposition plan that we have but also the funding mechanisms that we use in order to fund the Land Bank and bring it to a place where it can be fully self-sustained. My background takes me back to Douglas County in the '80s. I did work in tax foreclosure in those days so I'm very familiar with not only the tax foreclosure process but

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also with the tax lien certificate process. I left in 2000 after administering the Land Reutilization Commission for 13 years. That agency of government, as you know, is responsible for returning tax delinquent property to revenue producing status. We began with 3,000 properties when I started in 1987 and we ended with 500 by the time I left in 2000. Today the LRC continues to operate returning properties to a tax revenue producing position. Over these last 16 years I've served as a consultant, a teacher, an instructor of tax lien certificates, and also an investor in this area as well. So what you heard in the previous testimony from both Deana and Lilly, I very much agree with for the other states and would say to you, first of all, to have reduced the interest rate is going to attract a lot of out-of-state bidders who are going to be institutional bidders. They're going to be interested in only obtaining the property, not in obtaining any kind of an interest rate. They're going to be looking for local ownership here, which I believe would be an advantage to them, and in turn, a disadvantage to us as a local community across the state. If they were able to go in, it does inhibit what the Land Bank is able to do by virtue of our investments and by virtue of being able to continue to work with neighborhood groups, community groups, and of course individuals. The Land Bank is designed to be able to go in and do a number of things with distressed properties. So the kind of properties we have described here today are properties that some would say are the worst of the worst. They have great taxes on them, sometimes demolition liens as well and other liens. But they're properties that may be still viable if they can come through the process of tax lien certificate, tax foreclosure, or any other mechanism that might be available to us. In the case of the Land Bank, we bring these properties in to the inventory, clear the title on those properties, and then make them available for a nominal fee to the outside individual. We do limit the sales to individuals who are not tax delinquent, who neither have any code or condemnation violation against them, and they must redevelop these properties if they're purchased by the Land Bank within a two-year time frame. So we do watch very carefully who we sell to, why we sell the property, and of course in matter of obtaining these, we use the tax lien certificate process as one of our mechanisms for seeking to get the distressed properties off the tax rolls. In the case of Douglas County, we have about 5,000 properties a year currently that are offered at a tax liens certificate sale; 90 percent of those are actually picked up by investors like these companies you just heard. They indeed bring monies to the county by way of the principal being paid that day. They bring the interest rates back to the counties as well. And then of course they set up something for the people that come in and pay those and in 99 percent of the case, 99 percent of the case, those liens are redeemed by the individual owners of record. In my study and the research I've done across the country it takes approximately 18 months for a tax liens are difficult to be redeemed in a given county whether it be Iowa, Nebraska, Florida, Alabama, Colorado, any of the 30 states represented as tax lien certificate states, about 18 months is the average for the tax lien investment to be redeemed by the owner or a bank that may stand and want to guard that interest. So in the case of the tax liens of Douglas County, about 500 per year are left that aren't invested in by the investors due to the taxes being too high and the investment not being laudable by that investor. That's where the Land Bank stands in. We step in to invest in those properties only. We, as you know by

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the statute 19-5201 through 19-5218, can only invest in a certain criteria of tax lien certificates by an automatically accepted bid: those that have vacancy, delinquency, presence of vermin, they've been boarded up, any one or more of 11 different qualifications that we must meet to enter into that automatically accepted bid. When those properties are invested in, and I invested in 78 last year, we wait for them either to be redeemed within that three-year time which brings back 14 percent interest to the Land Bank as a revenue source or to wait for them to go through the three-year redemption period. If I could advocate for anything today it wouldn't be a change of interest rate. It would be a change of redemption period. I'd love to see our redemption period reduced for these properties the Land Bank deals and not from three years but down to zero or at least nine months. Any questions you might have for me please? [LB51]

SENATOR SMITH: Thank you, Mr. Barnhart. Do we have questions from the committee? I see none. Thank you. [LB51]

MARTY BARNHART: Thank you so much. [LB51]

SENATOR SMITH: Next person wishing to testify in opposition to LB51. Welcome. [LB51]

RYAN HANZLICK: Thank you. My name is Ryan Hanzlick, H-a-n-z-l-i-c-k. I'm out in Furnas County, Nebraska. I am here for my second time doing this. First time was in 2015 on another bill, the same situation, LB162, where we were trying to adjust the bid down. I am what they call mom and pop. I might get four or five certificates a year. A lot of time I do it with borrowed money. If the bid down comes in, I am not going to be able to compete, plain and simple. I'll be out. There's some really valid points that I just heard. Omaha, 5,000 certificates and they end up with--I called the treasurer's office yesterday--540 actually that were turned over to county certificates last fall. That's about 11 percent, 11 percent turnover rate, the county certificates that the county attorney in Douglas County is going to have to deal with. Now Arizona has a bid down also. They start out 16 (percent) and they bid it down to whatever they want. In certain counties in Arizona in the past, they've had the bid down average, the way it averaged, go down to 2 percent and 3 percent because the funds were there by the big investors from Wall Street were there buying certificates. In years where the funds had better places to put their money, they don't show up and Arizona has run the local bidders out. And Arizona in certain counties in certain years has as high as 50-55 percent of all the certificates offered get struck to the state. They don't have a certificate the same way we have. If we had as many unsold certificates as those states in Arizona, Douglas County Treasurer would end up with 2,500 foreclosures instead of 540. I don't think anybody has accounted for the additional cost the county attorneys are going to have to have if that happens. Is it likely? I don't know. Senator Groene asked about how you can lose money. You go into the sale you have to pay \$25 registration fee and you have to pay the \$20 fee for a certificate. If you get offered, say, \$30,000 property that's at a 2 mill levy...well,

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\$600 tax bill on a \$30,000 property, it takes you over six months before you start breaking even on the fees you paid to get into the sale and to buy that certificate. So if the majority of them pay off within the first 18 months...and I believe it because I've seen a lot of pay off within the first 6 months. If the majority pay off in the first 18 months, you're actually only earning 14 percent for the whole 18 months. You don't earn...you don't end up earning 14 percent ever. And there there's the one that burned down like everybody said. There's the junkers and the one that you...they were fine when you bought the certificate and they burned down the day that you are ready to file for a deed. My point is if we do the bid down, the local guys are going to be out. The big guys are going to come in. And what is this county going to do when the big guys decide that they've got something better to do with their money? That's my main points. Any questions? [LB51]

SENATOR SMITH: Questions from the committee? I see none. [LB51]

RYAN HANZLICK: Okay. [LB51]

SENATOR SMITH: Thank you, Mr. Hanzlick, for your testimony. [LB51]

RYAN HANZLICK: Thank you. [LB51]

SENATOR SMITH: Next opponent of LB51, opponent. [LB51]

TERRY JESSEN: Good afternoon. [LB51]

SENATOR SMITH: Welcome. [LB51]

TERRY JESSEN: (Exhibit 3) I'm Terry Jessen, T-e-r-r-y J-e-s-s-e-n, from Scottsbluff. In addition to being an accountant, I also own a business. We invest in tax sale certificate in a few states. That is Express Funding Corporation. I started investing in tax sale certificates in Nebraska and Colorado in 1970. So the newcomers back here who have only 25 years' and 10 years' experience, I've got them outnumbered by years of experience. They do a larger dollar volume than we do by far. But I'm certainly opposed to LB51. The same issue was presented and considered by this committee as LB162 in January of 2015. This sounds like an original idea that maybe there's a slice of money to be kept for the counties. Other than a very few large counties in Nebraska, I submit that it would actually cost those counties money to keep track of the different interest rates on different certificates and would not net earn them any money. I've seen one example saying that they would have to hire additional help just to track the interest rate. I think the counties, other than two or three maybe larger counties, would actually lose money

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under this proposal, not make money. It would tilt the program to favor out-of-state large funds whose their cost of funding is a lot cheaper than our of costing. We use bank funding. Of course, we're going to see that interest rate nudging up and a little higher harder to qualify in most cases due to federal rules. This is not a gravy train. The investor has additional costs--office personnel to track their investments. We end up with some worthless properties where we get zero back out of them. Just from my personal experience we've ended up with properties that have mold. We've had properties burned to the ground. We had one burn down in a very nice neighborhood on July 4, fireworks. Was it set on purpose? Was it not? I don't know, but we were the ones that lost our money. Termites, demolition, other code violations by cities, cities are always on us even in many cases before we're the owner of the property. Either they're on us or they're assessing weed mowing. So we go in and we buy a certificate on a property. We don't get what we bargained for because when that three years goes by, then we file a lawsuit and we're up to another year. We're nine months to a year before it comes to a sheriff's sale and someone gets the opportunity to take ownership. If we take ownership, we often find that, oh, we've got three years of weed mowing on top of it. We have other code violations on top of it. So we've stepped from being an investor to now an owner subject to all those other regulations. We had one property in another state that the fire department called us. And this is a property with...the front door was five foot off the ground it was a split level. We had water running out the front door. When we contacted the city, the next day they...oh, no, they water has been off in that property for three years. Well, that's what the guy turned in the paperwork said it was off. He didn't turn it off. So our house gets destroyed for reasons outside of our control. The investors in tax sale certificates have, for many years, provided a very important service to the taxing entities in these counties and that is liquidity. And there's a huge value there. And I think before we change something that isn't broken and trying to fix it, we ought to have a thorough understanding of what problems we may cause by trying to fix it. That's all I have. Thank you. [LB51]

SENATOR SMITH: Thank you, Mr. Jessen. Senator Brasch. [LB51]

SENATOR BRASCH: Thank you, Chairman Smith, and thank you, Mr. Jessen, for your testimony. I have just one question. With the events that happened on...that may happen, are you unable to get home insurance on it? Are these total losses? Are they uninsured or you're not able to get insurance? [LB51]

TERRY JESSEN: If that happens prior to us taking legal ownership, our only right before is the right to add additional taxes to that lien to increase our investment in that property. We have no ownership rights, therefore, we cannot insure. We can't protect it in any way. We can't go on the property. If we do we're trespassing. [LB51]

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SENATOR BRASCH: And you can't, I guess, cancel your interest if the house is not as or property is not as you bid for it. It's not what you're... [LB51]

TERRY JESSEN: No, if we know that something has happened we can choose not to pay additional taxes on it. But on the day of the tax sale, our money is gone. It's invested. So we have no control. [LB51]

SENATOR BRASCH: Okay. All right. I have no other questions. Thank you. [LB51]

TERRY JESSEN: Thank you. [LB51]

SENATOR SMITH: We'll go to Senator Groene then over to Senator Schumacher. [LB51]

SENATOR GROENE: A couple questions, the three years from the time you bid it, the three years if it goes, who pays the taxes those three years? [LB51]

TERRY JESSEN: Generally the investor will subtax and pay the additional taxes. You're not required to but you're foolish not to, unless it's a property you've observed and you choose to walk away. [LB51]

SENATOR GROENE: But then that's added to your lien on it. [LB51]

TERRY JESSEN: Then you add to your lien. [LB51]

SENATOR GROENE: What counties in Nebraska do you get involved in? [LB51]

TERRY JESSEN: We do a majority of the 93 counties. [LB51]

SENATOR GROENE: So a county of my size or Scotts Bluff County. [LB51]

TERRY JESSEN: Yeah, I've been in Lincoln County personally for the last 12 years or so. [LB51]

SENATOR GROENE: So they have a property. Do they have multiple properties at each of these sales? [LB51]

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TERRY JESSEN: Oh, yes. And in Lincoln County there's just short of 100 bidders. [LB51]

SENATOR GROENE: That's what I was going to say. How many bidders show up for five properties? [LB51]

TERRY JESSEN: Well, Lincoln County has a few hundred properties. The whole process has gotten more difficult to figure out a way to make money in irregardless of the 14 percent. You're not getting 14 percent. At very best you're getting 12.25 percent because when you pay that upfront, we're paying the accrued interest. There's no interest on interest. We're paying those fees and registration fee. We've paid a person to be there. We've done whatever research we've done before. And then we have to track those properties. So we have a substantial cost that we do not get back and do not earn interest on. [LB51]

SENATOR GROENE: So you walk into the courthouse and there's property and there's ten bidders for one property. How do you decide who gets that property? It's a round robin? [LB51]

TERRY JESSEN: Round robin is what they do. So when you register in most counties in Nebraska you get a number, they assign you a seat in that order, and when it is your turn you have the opportunity simply to say yes or no. [LB51]

SENATOR GROENE: On that property. [LB51]

TERRY JESSEN: So you can't say I want this property over here. It's the property being offered. It's a yes or a no. [LB51]

SENATOR GROENE: So it's like a lottery plus a round robin. [LB51]

TERRY JESSEN: Yes. [LB51]

SENATOR SMITH: Senator Schumacher. [LB51]

SENATOR SCHUMACHER: Thank you, Chairman Smith, and thank you for your testimony. In the process that you described, I take it you do not use judicial foreclosure. [LB51]

TERRY JESSEN: Oh, we do. We do. [LB51]

SENATOR SCHUMACHER: You do use judicial foreclosure. [LB51]

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TERRY JESSEN: We have in the past a few times taking treasurer's deeds, but we have chosen to no longer use that. [LB51]

SENATOR SCHUMACHER: And the property taxes then, in the event that the house burns down and a judge sells it at the sale...or rather the sheriff sells it because the judge told him to, money comes in from the sale, pays off the court costs and then goes toward your tax sale. [LB51]

TERRY JESSEN: Yes, if it sells to an outside party, they pay the court and we get those dollars up to the amount. [LB51]

SENATOR SCHUMACHER: And you get that before any banker or anybody else gets it. [LB51]

TERRY JESSEN: Yes, that is correct. [LB51]

SENATOR SCHUMACHER: So really, you've got a super first mortgage on it. [LB51]

TERRY JESSEN: Yeah, that's fine. [LB51]

SENATOR SCHUMACHER: And if the house would have burned down, the only time you literally lose money is if nobody bids at that sale at all, at least up to what your taxes and interest are. [LB51]

TERRY JESSEN: That would one of the times that you could lose money. There's lots of other situations you can lose money on them. [LB51]

SENATOR SCHUMACHER: And could you maybe explain some of those. [LB51]

TERRY JESSEN: Sure. So the first one is an early redemption. So in most counties the taxpayer can redeem as early as the same day of the sale. You see an awful lot of redemptions in the first 30 days. We have a rash of redemptions in the first 30 days. Redemptions in the first several months, will actually lose us money per certificate. We will lose money because we haven't earned enough interest to recoup our actual out-of-pocket costs. At the other end, so in the middle you have an opportunity to make money given today's interest rates. However, interest rates are going to increase on our cost of interest. At the other end, then we have costs. We have to do a title search. We have to file a lawsuit. We're paying an attorney to do that. We don't have

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in-house counsel and all of those are out-of-pocket costs. In the event that we end up with a property, there is no redemption, we pay those costs. There are actual costs. Then when we get...it goes to the sheriff's sale. We get a deed. That's the first time we physically take a presence with the property. And I can assure you if we've taken ownership, you don't want it. It is a problem of some sort. [LB51]

SENATOR SCHUMACHER: But no one is forcing you to take that ownership. [LB51]

TERRY JESSEN: If we don't bid in our lien or some dollar amount, then it will sell to someone else for less than our lien usually and then we have a different kind of a loss. [LB51]

SENATOR SCHUMACHER: But we're only talking about the taxes here. We're not talking about the whole value of the property. [LB51]

TERRY JESSEN: That is correct. So... [LB51]

SENATOR SCHUMACHER: And I...was the testimony 99 percent of these before ever they go to judicial sale and the term of the loan is 18 months? [LB51]

TERRY JESSEN: I would disagree with that percentage. Our experience is different than that. Very few actually go to ownership. But if they do, you're losing money. [LB51]

SENATOR SCHUMACHER: I don't have anything further. [LB51]

SENATOR SMITH: I see no additional questions. Thank you, Mr. Jessen. [LB51]

TERRY JESSEN: Thank you. [LB51]

SENATOR SMITH: Others wishing to testify in opposition to LB51, opponents of LB51. Seeing none, anyone wishing to testify in a neutral capacity on LB51, neutral capacity? Welcome. [LB51]

CANDACE MEREDITH: (Exhibit 4) Candace Meredith, C-a-n-d-a-c-e M-e-r-e-d-i-t-h. Good afternoon, members of the Revenue Committee. My name is Candace Meredith, I am the Chief Deputy at the Lancaster County Treasurer's Office. I am here to testify in a neutral position to LB51. The Lancaster County Treasurer's Office and the Nebraska Association of County Treasurers appreciates that LB51 allows for a possible revenue source at time of redemption on

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tax certificates that can have interest bid down at the tax sale that is held the first Monday of March. However, in order to keep a structured tax sale, the association would like to see that the language referring to a round robin format be included. The county treasurers of Nebraska utilize this current format in 77-1807 to conduct the tax sale to the best of our ability in a consistent, structured, and efficient manner. Due to fair market values on interest rates, there may be circumstances of a tiebreaker due to multiple exact lowest bid. The round robin format can be utilized for fairness and consistency amongst investors as well as keep the tax sale moving at a moderate pace. From a procedural standpoint, the association would encourage that the language include only whole numbers that will be bid to prevent time restraints. This also allows the County Treasurer's to have a uniform process to conduct our tax sales across the state. In conclusion, due to the extensive programming implementation cost that we have experienced with personal property tax credits in 2016, and now ag land credits in 2017, we ask that the bid down process for our tax sales will be effective for the first Monday in March 2019. This will allow the treasurers' offices enough time to enhance our tax systems and to budget accordingly. So thank you and are there any questions? [LB51]

SENATOR SMITH: Thank you, Ms. Meredith. Do we have questions? Senator Schumacher. [LB51]

SENATOR SCHUMACHER: Can you give us a bit of an impression how much money is involved here. Let's say that you ended up with half of the 14 percent by this mechanism. What does that look like (inaudible)? [LB51]

CANDACE MEREDITH: Sure. So prior to talking with you today, I did run our 2016 income that we have to submit to the accounting clerks for all the investors. And we had interest income of \$272,000 that was issued in interest income last year for Lancaster County. So it would be half of that, if it was at 7 percent across the board. [LB51]

SENATOR SMITH: Senator Groene. [LB51]

SENATOR GROENE: Thank you, Mr. Chairman. Do you have an auctioneer working for your department? [LB51]

CANDACE MEREDITH: No, it is myself and my staff that conduct the sale right now. [LB51]

SENATOR GROENE: So how would you know how to conduct an auction? [LB51]

CANDACE MEREDITH: That is a good question. [LB51]

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SENATOR GROENE: Thank you. [LB51]

SENATOR SMITH: I see no further questions. Thank you, Ms. Meredith, for your testimony. [LB51]

CANDACE MEREDITH: Thank you. [LB51]

SENATOR SMITH: Anyone else wishing to testify in a neutral capacity? We now invite Senator Schumacher to close on LB51. [LB51]

SENATOR SCHUMACHER: Thank you, Chairman Smith members of the Revenue Committee. I think some facts have been pretty much established: that these are very good loans, that somewhere--one figure was 99 percent; we assume it's a percent or two less--payoff within 18 months without any hassle. There seems to be some complaint that some payoff too quick and they don't get the \$20 purchase fee out of it. And even then, the testimony was it worked out to like 12.5 percent where they...overall. The \$25 fee, it's my understanding that that is for all the bidding at the auction. It's not \$25 per certificate. So if you buy 10, it's \$2.50. It's...in the event the market rate would go back up, for some reason we have higher interest rates, it starts out at 14 percent and nothing has changed from the way it is now, this specifically allows and continues to allow those really bad pieces of property that Senator Mello's Land Bank purchase to continue to be purchased. That doesn't change any of that at all. As far as the ability of those really bad pieces of property in Omaha to be purchased by the Land Bank type mechanism, this is an option to pick up some revenue at the local level and also to have the market determine what a fair interest rate is at those auctions. If there is a county out there that the investors, only one shows up, I guess it stays at 14 percent, unless the investor is dumb enough to bid against themselves which is unlikely. These are fairly sophisticated people and make pretty good money off this. So I'll take any other questions. [LB51]

SENATOR SMITH: Questions from the committee for Senator Schumacher? I see none. Thank you, Senator Schumacher. That concludes the hearing on LB51 and that concludes the hearings for today. Thank you. [LB51]