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Revenue Committee
February 08, 2017

[LB337 LB338]

The Committee on Revenue met at 1:30 p.m. on Wednesday, February 8, 2017, in Room 1524 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LB337, and LB338. Senators present: Jim Smith, Chairperson; Curt Friesen, Vice Chairperson; Lydia Brasch; Mike Groene; Burke Harr; Tyson Larson; Brett Lindstrom; and Paul Schumacher. Senators absent: None.

SENATOR SMITH: Good afternoon, everyone, and welcome to the Revenue Committee public hearing. It's good to see so many people with us today that have an interest in Nebraska's future. My name is Jim Smith, I represent the 14th Legislative District in Sarpy County, and I am Chair of this committee. The committee will take up the bills in the order 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 best facilitate today's proceedings, I ask that you abide by the following procedures. First, please turn off your cell phones and other electronic devices so that it does not interfere with people that are testifying before us today. We do have a crowded room and so I'm going to ask that the people that are going to testify, as a seat becomes available and you'd like to move towards the front of the room, that would help us move through the testimony as quickly as possible. I'm going to go over the order of testimony today a little bit farther on in the discussion here, but basically we're going to cover...we're going to start out with the introducers of the bill, the proponents, opponents, neutral testimony, and then we will have 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 to distribute those, please hand them to the page to distribute. We will need 11 copies for all committee members and for the staff. If you do need assistance in making copies let us know, we'd be more than happy to help you out. When you begin your testimony we will need you to both state and spell your name, and that's for the transcribers to get it correct in the record. We are going to follow procedure a little bit differently today because we have so many people that are wanting to testify on these two bills and to make certain that we handle this as fairly as possible, to get a broad perspective on support and oppositions on these bills. So what we're going to do is, aside from opening and closing and the invited testimony from Commissioner Fulton, we're going to follow a three-minute rule. And that so the green light will be on for two minutes during your testimony and then that light will turn to amber for the third minute. When it turns to amber colored we appreciate if you would wrap up your testimony so that when it turns to red you're able to close out your testimony. We're going to rotate, so we're going to do 30 minutes of proponents, beginning with the first bill on LB337, 30 minutes of proponents, 30 minutes of opposition, 30 minutes of neutral testimony, and then we will close out that bill. And so I'm going to ask the Revenue Committee members to be mindful of that, we want to maximize the public's ability to state their position on the bills before us. We do want to

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entertain any questions, but we just don't want to take up too much of their time with questions from the committee, and make certain we hear from the public today. If you would simply like your position to be known but do not wish to testify, you're welcome to sign the white form at the back of the room and it will be included in the official record. The microphones are not for amplification. They are simply to record for the transcribers to get everything into the record properly. So you will have to speak loudly enough if you want the folks around you to be able to hear your testimony. Let me introduce staff that's with us today. 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. And I'm going to allow the committee members to introduce themselves today. Senator Larson will be joining us a bit later.

SENATOR GROENE: Senator Mike Groene, District 42: Lincoln County.

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

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

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

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

SENATOR HARR: And last but not least, Burke Harr, Legislative District 8, representing midtown Omaha and parts of Dundee, Benson, and Keystone neighborhoods.

SENATOR SMITH: That pages that are with us today to help us are Alexi Richmond from Milwaukee, Wisconsin, and Sarah Wearne from Topeka, Kansas. We appreciate them being here today and helping us out. Please again remember that senators may come and go, they do have bills to introduce in other committees, so we appreciate your patience with that. They do want to be here and hear your testimony today, but they do have other obligations as well. Also, I'm going to ask, because tax policy, property and income, tends to be a very passionate issue, and I'm going to ask that the public, you know, refrain from applauding whether you're...or any other signs of support or opposition to any of the bills. I know they want to applaud for you, Governor, but we do want to be mindful of that so everyone feels like everyone is treated fairly here today. So with that, I'm going to turn it over to the Vice Chair of the committee, Senator Friesen, as I make my introductions.

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SENATOR FRIESEN: Thank you, Chairman Smith. We'll now open the hearing on LB337. [LB337]

SENATOR SMITH: Good afternoon, Senator Friesen and members of the Revenue Committee. For the record, my name is Jim Smith, J-i-m S-m-i-t-h, and I represent the 14th Legislative District in Sarpy County. It's an honor to be here today and to introduce LB337 on behalf of Governor Pete Ricketts. LB337 would phase in tax relief over an eight-year period with the first full year of impact in 2020. The bill uses revenue thresholds or triggers to create the basis for adjustments to the individual tax rates. If the Nebraska Economic Forecasting Advisory Board's October forecast expects a growth rate of net General Fund receipts of at least 3.5 percent, the next scheduled tax rate reduction takes effect in January. If the forecast is less than 3.5 percent, the next scheduled tax reduction simply doesn't happen, it is deferred. That deferral can be used if the next positive variance is 4.2 percent or more, along with that specific year's adjustment. Ultimately, the goal is to reduce the top marginal tax rate for individuals and pass through business taxpayers from 6.84 percent to 5.99 percent, roughly a reduction of 0.11 percent each year. Taxpayers in the top bracket represent single filers who make just \$29,000 annually or \$59,000 for a married couple filing jointly. Also represented are Nebraska's small businesses, 90 percent of which pay through individual tax brackets and are responsible for two out of every three jobs nationally. Typically, the effective tax rate for these small businesses is a higher burden than that experienced by corporate taxpayers and it is for this reason that this bill is important to our small businesses in our state. Some individuals will see smaller savings than others, but collectively more than \$1 billion will be introduced in the economy once LB337 is fully implemented. Other tax reform and tax relief bills have been heard and will be heard by this committee this year. And LB337 certainly has a role to play and a place in our efforts to deliver both certain and meaningful tax relief to our families and our businesses. With that, I would like to invite Governor Pete Ricketts to provide his opening remarks on LB337. [LB337]

SENATOR FRIESEN: Thank you, Chairman Smith. Are there any questions from the committee? Senator Harr. [LB337]

SENATOR HARR: Thank you. Thank you, Chairman Smith. I just need you to, if you could, clarify. You say over \$1 billion introduced into the economy. Is that a fiscal note of \$1 billion a year or is that compounded over a number of years? [LB337]

SENATOR SMITH: No, it's compounded over the full implementation period. [LB337]

SENATOR HARR: Okay. [LB337]

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SENATOR SMITH: And if that implementation period were eight years, if we were hitting the trigger amount every year, then you could figure that out roughly over an eight-year period. [LB337]

SENATOR HARR: And this is kind of tricky, right, because I looked at the fiscal note and it doesn't really answer. Year eight it has \$287,183 million. [LB337]

SENATOR SMITH: Uh-huh. Uh-huh. [LB337]

SENATOR HARR: I guess my question is how did they...do you know how they came up with that number? Is it assuming that we have a 3.5 percent growth every year, but only 3.5? Or is it...do you know, because you're cutting, right? [LB337]

SENATOR SMITH: That may be a question for Tax Commissioner Tony Fulton. [LB337]

SENATOR HARR: Good point, he does make these, or helps with them. Thank you, I appreciate that. [LB337]

SENATOR SMITH: All right. [LB337]

SENATOR FRIESEN: Thank you, Senator Harr. Senator Schumacher. [LB337]

SENATOR SCHUMACHER: Thank you, Senator Friesen. Thank you, Senator Smith, for introducing this. You say that \$1 billion cumulatively by the time it the final trigger is triggered will be introduced into the economy. Introduced from where? [LB337]

SENATOR SMITH: That would be introduced from the families that have savings that are not paying in their taxes and reapplying those to purchases they may have. Businesses certainly, for the investments they may have, it may be payroll. [LB337]

SENATOR SCHUMACHER: But wouldn't that money already be here? How does it get introduced? That implies something can be (inaudible). [LB337]

SENATOR SMITH: Well, I can speak for my small business. [LB337]

SENATOR SCHUMACHER: Okay. [LB337]

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SENATOR SMITH: If I'm not paying \$1 in tax, I'm going to use that \$1 to invest somewhere. And it may be in payroll, it may be in a bonus to an employee, it may be for a new computer system or a new truck, it may be capital improvements. But then that gets multiplied further as whoever I'm buying that service from or that product from reapplies it as well. [LB337]

SENATOR SCHUMACHER: But if that dollar goes to the state to be applied to roads or education it doesn't leave then either and it's still in the economy. Introduction implies some input and I just was curious where (inaudible). [LB337]

SENATOR SMITH: I guess maybe my distinction would be private sector investment. [LB337]

SENATOR SCHUMACHER: Okay, thank you. [LB337]

SENATOR FRIESEN: Thank you, Senator Schumacher. Any other questions from the committee? Just one question I guess: You mentioned that it only...the process starts with the October forecast and then it waits for the next one. It always follows that same...? [LB337]

SENATOR SMITH: That's right. That's not clearly spelled out in the bill, but I believe that that is the intent. [LB337]

SENATOR FRIESEN: Okay, thank you. Seeing no other questions, thank you, Senator Smith. Welcome, Governor. [LB337]

PETE RICKETTS: Good afternoon. Thank you, Chairman Smith and members of the Revenue Committee, for the opportunity to be here this afternoon to talk about this bill. And thank you, Senator Smith, for introducing it. The vision for my administration...oh, I'm sorry. And for the record, my name is Pete Ricketts, P-e-t-e R-i-c-k-e-t-t-s. The vision for my administration is to grow Nebraska, to create jobs and opportunities for our young people to stay here and attract people from around the country to come. To be able to grow our state, we've got to become more competitive. If we want families to move here, if we want business to expand here, we've got to be more competitive with the other states that we're competing for those families and businesses. And one of the areas we have to be more competitive on is our income taxes. So if you look at the surrounding states, the only state around us that's got a higher income tax rate than us is Iowa. Wyoming and South Dakota have no income taxes; Kansas, Colorado, and South Dakota...or Kansas, Colorado, and Missouri all have lower rates than we do. So to become more competitive on these rates is going to be important if we're going to attract companies to come here. And that's really one of the three things I think about when I think about this bill--that we have to be more competitive for the companies that are looking to expand here; we have to help

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small business, as Senator Smith already outlined; and we want to make sure we allow our Nebraska families to keep more of their hard-earned income. Now the senator described how this bill will work, and actually he did a very good job of really laying out that we will gradually take our rates down over time, starting in January of 2020, about a tenth of a percent a year, as long as our revenues are growing at 3.5 percent or more. So we have that trigger the senator described on making sure that we will be able to manage our budgets and still be able to effect the tax relief over a period of time. And it's important because, again, we didn't get to be a high-tax state overnight; it's been over a period of time. And we're not going to get down out of being a high-tax state overnight. It's going to be a gradual process, as laid out in LB337. And that also relies on us to continue to manage our budget, control that spending. So this is a responsible way to do tax relief, it's thoughtful, it's prudent, it's measured, and it will allow us to have that tax relief in a way and is also responsible. In fact, this is the Nebraska way. We don't spend money we don't have. So we take it down over a period of time. And by doing that, we're allowing ourselves to be more competitive when those site selection consultants and companies are looking at our state. And if we get that tax rate down below 6 percent, that will help us be more competitive of that. And I've been through this process myself, having been the COO of Ameritrade. When we look at different places that you're going to go, taxes are one of those things you look at. So this will help us be more competitive from that standpoint. It will also help our small businesses be more competitive and that's one of the things that Senator Smith outlined with regard to, you know, 90 percent of small businesses are paying on this individual tax rate. And if we can allow more of them to keep their money, they can invest it back in their businesses to help create jobs. And as the senator pointed out, nationally, two-thirds of all jobs in this country are created by small businesses. And that's about half the people in Nebraska are employed in small business. In the press conference we had earlier this week, we had a number of small businesses testifying or talking about how this would benefit them. And then finally, we want to allow our families to be able to keep more of their own dollars. And that's what this does. Our high tax brackets, our top tax bracket starts at \$29,831 of taxable income for an individual. That's middle class. And if you're talking about couples, you're talking about \$59,661. That's more than half. So this will allow our Nebraska families to keep more of their hard-earned money and avoid taxing in excess of what we need to do to run the government. Now, some have expressed concern about what other states have done, where they have cut tax rates but didn't control spending. Well, we're doing it actually the opposite way. We're controlling the spending first and then bringing those tax rates over time. Again, this is the Nebraska way we do things. Overall, again, this is something that will help us be more competitive when companies are looking at moving here, when families are looking at moving here. This will help our small businesses to be more competitive and invest more money into their own companies so they can create more jobs. And this will also allow Nebraska families to keep more of their hard-earned money. So overall, LB337 is an important way for us to be more competitive and help grow our state of Nebraska. Again, thank you very much to the members of the committee who are here today, and I'd be happy to entertain any questions with regard to this bill. [LB337]

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SENATOR SMITH: Thank you, Governor Ricketts, for your introduction on LB337. Do we have questions from the committee? Senator Harr. [LB337]

SENATOR HARR: I'll start. [LB337]

PETE RICKETTS: Please do. [LB337]

SENATOR HARR: Thank you. So, I'm going to start big picture, right, and then I'm going to work my way down. And I see that, well, former Senator, now Commissioner Fulton is behind us. I'm going to ask him a lot of the specifics on the bill. But, you know, you said your vision for Nebraska is grow Nebraska, and I agree with that. And, you know, I've done some research and I read the headlines, and that's all I read is headlines, but it said cutting taxes will lead to more job growth. Is that your belief as well? [LB337]

PETE RICKETTS: I think when we allow the people who are the job creators in this country, which are small business, to keep more of their own money and reinvest that back in their own companies... [LB337]

SENATOR HARR: Okay. [LB337]

PETE RICKETTS: ...they will be able to do more as far as creating jobs. [LB337]

SENATOR HARR: Is it your contention that there is a correlation between tax cuts and economic growth? [LB337]

PETE RICKETTS: Well, certainly if we're allowing people to have more of their own money and then allow them to invest it back in their businesses that will allow them again to create more jobs. [LB337]

SENATOR HARR: Okay. [LB337]

PETE RICKETTS: At the end of the day what we want to make sure is that we're not taxing more than we need to. [LB337]

SENATOR HARR: Yeah, and nobody does. [LB337]

PETE RICKETTS: We don't want to tax in excess of what we want to do. [LB337]

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SENATOR HARR: Right. [LB337]

PETE RICKETTS: And by allowing ourselves to, again, only take these rates down when we've got a growth rate of 3.5 percent or more, that will allow us to manage our budgets and still be able to deliver this tax relief. [LB337]

SENATOR HARR: Okay. And I appreciate that. I'm looking at a report from the Congressional Research Service which states that, and it's from September 14, 2012, which shows there is no real correlation between cutting taxes and economic growth. And so I'm trying to figure out overall how that's creating. And I appreciate your comments. We're going to hear of another bill today on property taxes and, you know, the answer is I want to cut both, you know, and increase spending for the poor, right? [LB337]

PETE RICKETTS: I believe we need both of those bills, yeah. Both these bills are good bills. [LB337]

SENATOR HARR: You know, and...you know if "ifs" and "buts" were candies and nuts, everyday would be Christmas as well. So we only have a limited amount of dollars we can spend and I'm trying to figure out how to prioritize. And my...I guess it goes back to first of all how should we tax, should it be based on ability to pay? Should it be based on fee for service? If you go back 100 years ago, everything was property tax and tariffs and fee for services, right? And over time we decided that didn't capture wealth properly, so we introduced, we being the first U.S. Congress, and then later we, Nebraska, in '67 income taxes because we thought it better captured how wealth is created. And the ability to pay took precedence. Do you think we should do ability to pay or fee for services or some other form of taxing? [LB337]

PETE RICKETTS: Well, with this bill we're really not getting at those kind of bigger picture kind of things that you're talking about. We're really saying we've got a system in place today, right? We have to work within our budget and what we're talking about is how do we work within the budget. I looked at a variety of different ideas on what we could do to collapse tax brackets or other ideas that we could do. And this is something that we can manage within our budget, it's within the existing framework, and will allow us to become more competitive when it comes to looking at tax rates, helping our small businesses, and putting more money back into the class of middle class families. So I don't know that we're talking about structurally changing the way that we're trying to address how we, you know, the big philosophical picture you're talking about. This is really about we've got a system in place today, so how can we make this more effective to being able to grow our state. [LB337]

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SENATOR HARR: But in a sense we are. And now your bill doesn't have, but we're going to hear other bills in front of this committee that are saying let's lower income, let's lower property, and let's expand the base and move that over to sales tax, right, which is consumption-based. And that's more of fee for service and it's less ability to pay. And, you know, this bill, and maybe you know this, I don't. Do you know what percentage of the fiscal note will go to top quartile, of the tax breaks, will go to the top quartile? [LB337]

PETE RICKETTS: So about 90 percent of the taxes, income taxes that are paid in the state are paid by people who get caught in that top income tax bracket so. [LB337]

SENATOR HARR: And that goes back to ability to pay, right? Because we say if you have less money, you receive more of the benefits of society, right? If our economy were to fall apart tomorrow, I don't have a lot of money, I'm okay. There are billionaires in the state that would probably be hurt more. And so we kind of say it's ability to pay and it's a less percentage of their take home. They, you know, it may be a large percent of their take home pay, but it doesn't hurt them as much. And that's what I'm trying to get at is do we want to pay fee for services or do we want... [LB337]

PETE RICKETTS: Well, I think you got to look at it holistically because income tax is not the only thing that we're looking at here, right? When we're talking about the overall sort of fairness of the system, which I think is what you're trying to get at. [LB337]

SENATOR HARR: What is a fair system? [LB337]

PETE RICKETTS: But what I'm just saying when you're looking at the overall fairness in the system, for folks at the lower end income end the range we also have things like the Earned Income Tax Credit. A couple of years ago we passed LB81 to end the cliff effect when it came to childcare, you know, like if you start earning too much money you got cut off from that benefit. So we have benefits like that and we were trying to smooth that out. We're doing other things, like in our Department of Labor working on a reemployment program to help people get back to work more quickly so that they, you know, hopefully one day can be in that top tax bracket. So I think there's a variety of things that we look at in an overall big picture of how do we grow the state and how do we, you know, make sure we've got a system that people are, you know, all participating in. So this is just one aspect of it and like I said, I don't think we're looking to overall how we're changing the overall structure. [LB337]

SENATOR HARR: Right. [LB337]

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PETE RICKETTS: It's really here's the system we have in place today, here's a way we can be more competitive. [LB337]

SENATOR HARR: And that's why I was asking what is your vision because this is one part, and we're going to hear a number of bills, not just this one. And I notice you didn't answer my question earlier when I said what percentage of this goes to the top quartile. So let me ask you a little differently. Do you believe the top quartile, specifically the top 1 percent, pay too large a percentage of the total tax burden? [LB337]

PETE RICKETTS: Well, again, if you look at the way we're set up, remember this top tax rate starts at \$29,831, so we're not talking about, you know, that top 1 percent exclusively. With this bill, we're talking about middle class families as well. And again, people tend to, you know, with regard to how do people feel about this, well, I think it goes to, you know, where do they decide to live. [LB337]

SENATOR SMITH: And I'm going to inject here for just a moment, we can maybe another question here and see if there's any other questions from around the table. [LB337]

SENATOR HARR: That is your discretion. I appreciate that. [LB337]

SENATOR SMITH: Senator Schumacher. [LB337]

SENATOR SCHUMACHER: Thank you, Chairman Smith. Thank you, Governor, for bringing us this bill for our consideration. Am I correct in interpreting it that this trigger is triggered simply by a revenue calculation, a projection of increased revenue? [LB337]

PETE RICKETTS: Right, so the Forecasting Board will come up with the forecast for the next year based upon the econometric, you know, information that they collect. It is, as you know, both the Legislative Fiscal Office and the Budget Office that make presentations to that financial Forecasting Board. And then the TRRC, Tax Rate Review Committee, will meet after that meeting and make that determination openly. If we are determined that our revenues are going to go up 3.5 percent or more that the tax will not be deferred, the tax decrease will not be deferred. [LB337]

SENATOR SCHUMACHER: And nowhere in this proposal is there any type of entry into the calculation of the expenses or the amount of the cash reserve, it's strictly revenue? [LB337]

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PETE RICKETTS: Right. And so if again if you look at this over time, and I think that there was an article in the World-Herald that kind of talked about this, that we really think about this as long-term how this impacts. And so there's a number of years, according to the World-Herald article, that showed that we were forecasting less revenue and...or not enough revenue that would have kicked this in and enough revenue did show up that we would have been able to afford it. But in this case, but we didn't do it because the forecast was below that. And that in those years what will happen is that will actually, as you know by operation of law, that any excess revenues will go into the cash reserve. [LB337]

SENATOR SCHUMACHER: Now, there's a number of things that can cause our expenses and our revenues to go up. On the expense side we've got demographics, we know there's a lot of folks going to be turning 65 that really have not saved enough and yet are going to be expecting a pretty decent retirement somehow. We have climate, could have a number of droughts or pestilence of some kind that could drive up our expenses. And an easy one is, is we could have inflation. The Federal Reserve is targeting 2 percent. There's thought that it will meet that target fairly soon. Some people figure that we will have a much higher inflation than that. And so if we have inflation, our expenses will go up with inflation, so will our revenues. So if the Federal Reserve misses their target and we have 3.5 percent inflation, our expenses will be going up by 3.5 percent, our revenues will be going up by 3.5 percent, and these triggers will be getting effect. And if there's no safety balance in there for our cash reserve dropping, at some point we get into trouble, don't we? [LB337]

PETE RICKETTS: Well, I think that's why again if you look at the long-term analysis the World-Herald did, it showed that in more years than not you're actually going to be not forecasting that revenue growth. At least that was their experience between 2001 and 2014. There were four or five times when the forecast was below 3.5 percent and revenues were actually higher. And, of course, all of that money will go into the cash reserve. And if you look at again what I proposed in this biennial budget, we really targeted, in fact we put more money into the cash reserve to be able to keep it at a place where we would be able to handle that uncertainty. And, of course, if you look at the five-year projection, which we do as part of, you know, the out two years, as far as planning purposes, you'll see that we've got in excess of \$300 million above the cash reserve number. So actually we're pushing that limit of the law on the 7 percent. So if you look at the way the...at least built out over the next few years, we certainly have the flexibility with that. And then of course, you know, as with any (inaudible) law you always have the opportunity that if conditions structurally change dramatically you can always go back and change the law as well. [LB337]

SENATOR SCHUMACHER: Shouldn't there be at least a safety valve in here that says if the cash reserve drops below some level the triggers are off? [LB337]

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PETE RICKETTS: Well, we've already got a healthy cash reserve and, by the way, I'm certainly willing to work with the committee on different amendments. There's probably very few bills that actually get introduced and don't get amended in some way or another, so I'm certainly willing to work on that. But I think that if you look over the long term--again just look at the World-Herald article--you'd see that there were more years that we would not have...we would have deferred the tax decrease. That meant we would have had more revenues which would have gone into the cash reserve. So again, if you think long term, you are going to be building that, you're going to continue to build the cash reserve, at least based upon, you know, the experience from 2001 to 2014. [LB337]

SENATOR SCHUMACHER: 2001 to 2014 included 2001 to 2008, which was pre the great recession. And a lot of economists think that we are in a different set of mathematics from 2008 on. So I see there's some real need for work, as you indicated we might need, and rather than consuming a lot of time here, I suppose other people have questions. I mean, a lot of people have testimony. Thank you, Governor. [LB337]

PETE RICKETTS: Thank you. [LB337]

SENATOR SMITH: Thank you, Senator Schumacher. Senator Friesen. [LB337]

SENATOR FRIESEN: Thank you, Chairman Smith. Governor Ricketts, you talked about the cash reserve. Do you ever foresee us putting a cap on that? I mean, let's say for instance, I agree, the revenue forecast sometimes go low and we bring in more and say we build that cash reserve. And recently we were up in that \$765 million. Is there a top end where you would say we wouldn't do that anymore? [LB337]

PETE RICKETTS: Well, again, I don't know that it relates directly to this bill and I certainly think we want to be cautious about how much we let that cash reserve go up. But I think that really is really more the prerogative of the Legislature to make that decision and I don't know that I would want to handicap a future Legislature by putting a cap on how much could be in there. And then if you did do that, what would you do with those excess revenues beyond that? So yeah. [LB337]

SENATOR FRIESEN: You know, just I was more curious of where you foresaw maybe we should have a limit to what we put in there because in the past we've...the discussion has been at the Legislature do we have too much, do we not have enough, what is the right number. [LB337]

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PETE RICKETTS: Yeah, and I think that's really appropriate for the Legislature to manage that and not be constrained about having or, you know, putting a cap on how much could be in there and really leaving it up to different Legislatures to make that determination and continue to have that debate. [LB337]

SENATOR FRIESEN: Fair enough, thank you. [LB337]

SENATOR SMITH: Thank you, Senator Friesen. Senator Groene. [LB337]

SENATOR GROENE: It's not the sports page that's the World-Herald story. Governor, I want tax cuts. That's where I come from, but I want to do it right. I'm concerned with the language in this bill. It says "General Fund receipts." Isn't that corporate taxes, sales taxes, and income taxes? [LB337]

PETE RICKETTS: So it's, yeah, it's all the General Funds that will be coming in, yes. [LB337]

SENATOR GROENE: So there's proposals out there to raise sales tax. So if we raise sales tax, we give an income tax cut automatically the way this is written. Isn't that true? [LB337]

PETE RICKETTS: Well, first of all, I'm going to be opposed to any tax increases. Second thing I would say is if the bill is structured around that 3.5 percent in gross receipts, so, again talking in hypotheticals, it's hard to know exactly what would happen, which if you're starting to change how it's currently structured. [LB337]

SENATOR GROENE: Wouldn't it...I'm just playing devil's advocate here. [LB337]

PETE RICKETTS: But based on today it's really at 3.5 percent though. Regardless of how that is coming in, it's that 3.5 percent trigger. [LB337]

SENATOR GROENE: So wouldn't it be fairer to tie it to income tax receipts? So if you're paying...if we're collecting more income taxes, if that goes up 3.5 percent then we cut income taxes. [LB337]

PETE RICKETTS: Well, I'm happy to work with the committee again on different amendments to the bill, so absolutely open to working on it. Again, like I said to Senator Schumacher, I don't think there's ever been a bill...there's probably very few bills that actually don't get amended. [LB337]

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SENATOR GROENE: I'm just concerned about General Fund receipts. I mean... [LB337]

PETE RICKETTS: Right. At the end of the day though... [LB337]

SENATOR GROENE: ...we can talk progressive, but we can't give income tax cuts on a regressive increase in sales taxes. I'm for you, but let's...if I'm going to pay higher income taxes and as a body we pay, as a state, pay income taxes then why don't we get the cut on income tax receipts? [LB337]

PETE RICKETTS: Well, at the end of the day what we really do is try to structure this bill so that we could take those tax rates down for all of the reasons we described earlier and to become more competitive and do it in a way that would allow us to manage our budget, right, because we have to have a balanced budget and we don't want to get into budgetary trouble. So this is a prudent measure, a thoughtful way to do that. And at the end of the day, we pay our bills in the General Fund with all of the general, you know, receipts that come in, not just on income tax or not just sales tax. So we were taking a holistic view of how to approach this that would allow us to manage the overall budget. [LB337]

SENATOR GROENE: Don't get me wrong, I want to cut taxes. But I want to make sure it's done...if you pay them then you get the tax cut. Thank you. I mean, anything can change. [LB337]

PETE RICKETTS: Good, thank you. [LB337]

SENATOR SMITH: Senator Harr. [LB337]

SENATOR HARR: Thank you for recognizing me, Senator Smith. I appreciate that. And it's good to talk with you again, Governor. Sorry we were cut off. So when last we left, I guess I didn't get an answer at the first question is, and I don't mean to be rude, but do you think the top 1 percent pay too much of the burden of the state taxes? [LB337]

PETE RICKETTS: Well, I think that's more of a philosophical question for how we're approaching this. I think that we've set it up that, you know, starting at that \$29,000 everybody in that top bracket is paying proportional to what they're making. I don't know that people have an argument with that. I certainly don't have an argument with it. [LB337]

SENATOR HARR: Okay. And, you know, so you and I are alike in a lot of ways, in that we both left this state to go to school, to go to, well, postgrad actually even. And... [LB337]

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PETE RICKETTS: I thought you were going to say we're both follicly challenged. [LB337]

SENATOR HARR: Yeah, well, we're that too. (Laughter) Yeah, I had hair when I started, but I beat my head too many times. We both moved to Chicago even and eventually we both came back. And I can only speak for myself, but when I came back I didn't know what the tax rate was. I didn't think about the tax rate. Where I went and I think the same reason you came back is you went where the highest-paying job was. And isn't that what we should be really focusing on? I know there was the SRI report that your office helped pay for that said we need to focus on bringing in high-wage jobs. And shouldn't that be where the emphasis is instead of people coming here just because of the lowest tax rates? [LB337]

PETE RICKETTS: Well, certainly we want to create more high-paying jobs and we've got great companies here that are pursuing that. You and I had the advantage of being born here and knew what a great place it was to grow up in Nebraska and how we have the most wonderful place in the world. When we're talking about other families who maybe don't have that experience, I think one of the things we have to do is go out and make the case for why they should move here. Now taxes can play a part of that. Certainly when we were at Ameritrade looking at other sites to expand, that was one of the things we took a look at. Site selecting consultants certainly take a look at that when they're advising their clients, which are corporations who are thinking about moving here. I've certainly had people talk to me directly about, hey, you've got a high-tax state here, we're thinking about leaving. Maybe I'm retiring, I'm moving to Missouri, because I've had people tell me this, I'm moving to Missouri, of all places, because they've got lower rates. So I do think that it's one of the factors that goes into being an overall competitive state. Now, we got to do other things as well to attract those high-paying jobs you were describing. We want to have the best regulatory environment. In fact, Forbes does rank us the best regulatory environment, the third best state overall to do business in. We want to make sure people know about the great quality work force we have. That's really our greatest single competitive advantage we've got. So it's a number of things that we want to focus on. This is one of the areas where, again, with this bill we can be more competitive on the tax side. [LB337]

SENATOR HARR: So if we lower the rate to 5.99, I mean, we're already at darn near zero unemployment, right? For all intents and purposes, we aren't having problems finding jobs. What I want to do is bring in high-quality jobs and I just...well, I have a brother, very successful, moved to New York City, right? Taxes there are twice, he lives in Manhattan, they're way more. But he moved there because there was potential to make more money. He was willing to pay more taxes if he made more money. Now here, if we're just getting people...I understand you want lower if you're retired, because you have a fixed income, right, and you got to make that dollar stretch as far as possible. But I'm really looking for is how do we grow this state and how do we get those high-wage jobs and create an epicenter so more people want to come here. You and I are the exception, not many people go from Chicago to Omaha. How do we make it that

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this is a destination when I graduate from high school or when I graduate from college that I move to Nebraska or I stay in Nebraska, instead of this outward migration? We lose more graduates than we bring in. And I can tell you, if you interview them, if you talk to them, not one of them is going to say I left because of our tax rate. [LB337]

PETE RICKETTS: I do think it's an overall, you're talking about creating those jobs, well, corporations do take that in consideration when they're looking about where they're going to expand. And so again, if you want to create those high-paying jobs, you've got to have the corporations who are going to be, you know, the companies that are paying that to be able to do it. And remember also two-thirds nationally of those companies that are creating the new jobs are small businesses. And they, 90 percent of them, pay in that top tax bracket here in our state. So though they are making decisions based upon that, and so those are the people who are going to be employing the people that you want to keep here or attract here. And again, if we're talking about high-wage jobs, they're the ones who will be paying into that top tax bracket because, again, it starts at \$29,831 of taxable income. [LB337]

SENATOR SMITH: And one more question here, Senator Harr, then we're going to move to Senator Larson. He has a question. [LB337]

SENATOR HARR: Well, I will defer and we can maybe have some more conversation off the mike to see what is the best policy to move our state forward, to really grow it to be a twenty-first century state and to, as your predecessor liked to say, a modern tax system. Thank you. [LB337]

SENATOR SMITH: Thank you, Senator Harr. Senator Larson. [LB337]

SENATOR LARSON: Thank you, Senator Smith, and welcome to the Revenue Committee, Governor Ricketts. Kind of getting to, because I can understand what you're doing, nationwide are you familiar with some of, like, what other states are growing the fastest? [LB337]

PETE RICKETTS: Well, I know Texas, for example, has no income tax, is one of the fastest growing states. [LB337]

SENATOR LARSON: Texas and Florida are two of the fastest growing states, and do you know if Florida has a state income tax? [LB337]

PETE RICKETTS: Florida has no income tax as well. [LB337]

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SENATOR LARSON: Thank you, Governor Ricketts. [LB337]

SENATOR SMITH: Thank you, Governor. [LB337]

PETE RICKETTS: Great. Thank you very much, Chairman, I appreciate it. And thank you again for bringing this important bill. And thank you again to the members of the Revenue Committee for hosting us here today for this hearing. [LB337]

SENATOR SMITH: Very good. Thank you again. All right, we're going to now invite Tax Commissioner Fulton forward to give his introduction and then to take a few questions. Welcome, Commissioner. [LB337]

TONY FULTON: (Exhibit 1) Thank you, Mr. Chairman, members of the Revenue Committee. My name is Tony Fulton, T-o-n-y F-u-l-t-o-n, and I'm the Tax Commissioner for Nebraska, and I speak today in support of LB337. The concept behind the bill is simple: we should strive to make our individual income tax rates competitive with other states, we should do so incrementally, and we should do so as available revenue allows. LB337 sets out 0.10 or 0.11 percentage point declines in the statute and sets a goal to get there in eight years. In October, the Nebraska Economic Forecasting Advisory Board will meet and forecast the net General Fund revenues for the current year and the following fiscal year. The forecast for the next year would have considered already the impact of the rate decrease that is scheduled to occur in LB337. In November, the Tax Rate Review Committee will meet in the same way as they do now. However, under LB337, the committee will also compare the current year forecast to the forecast for the next year. And we've covered this, so I'm going to move on from that. Yeah, in the interest of saving some time for the committee, some of this has been covered. And if there are questions more specific to the bill, I'd be glad to answer them. Just recognizing your time, I'm going to move forward here. This is a prudent and measured approach to providing tax relief in such a way as to make Nebraska more competitive. And while our fiscal situation doesn't seem to allow for tax relief now, it is important that we take steps to plan for it. Such planning is the mark of a successful farmer, of a prudent investor, and of a parent planning for his child's future. So these people, they'll take a sober and honest accounting of today, they'll reflect, and then they'll consider how that very same sober and honest accounting is going to look ten years from now. That's what we do. Well, you're the body that does this. You are the wise and deliberative body, and I mean that. You are the ones who deliberate about this; you take a measured approach or measured accounting of where we are today. And then there's another group that's going to have to do this ten years from now. It seems to me that this is a prudent approach to providing tax relief and so I speak favorably for LB337 and I ask for your favorable consideration also. Thank you, Mr. Chairman. [LB337]

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SENATOR SMITH: Thank you, Commissioner Fulton. We'll take some questions. Senator Groene. [LB337]

SENATOR GROENE: Thank you, Chairman. Mr. Fulton, I would like to see tax cuts, but I want it done right. In this bill is there a base year? What is our revenues, I guess, our General Fund revenues right now? [LB337]

TONY FULTON: Say is there a base year? [LB337]

SENATOR GROENE: Well, first what is our General Fund revenues right now on average, \$4.5 billion, \$5 billion? [LB337]

TONY FULTON: I can't give you an exact number but \$4 billion, a little over \$4 billion. [LB337]

SENATOR GROENE: So will that be the base year in 2019? My point is let's say it's \$4.5 billion and it goes up 3.5 percent, so we get a tax cut. The next year it goes down, we have a disaster, and it goes down to \$4 billion, and then it goes up 3.5 percent. Are we going to give a tax cut or do we have a base year where we start, it has to get back to that base year before we start? [LB337]

TONY FULTON: Yeah, the way the bill is structured, and the Governor touched on this, but I just want to reiterate, that if there is a more artful or better way to present these principles, let that occur through this process. So I want that to be clear. But this, the bill starts by assuming there is either a 0.10 or 0.11 percent, depending on the year, cut. So that's already in place. If the Economic Forecasting Advisory Board, in their projection, projects less than 3.5 percent, 3.5 percent or less, then that tax cut is deferred. So in other words, there won't be a tax cut. So I think that's the answer to your question. [LB337]

SENATOR GROENE: What I'm saying, if it goes down 10 percent one year, all right, no tax cut. It goes back up 3.5 percent the next year, a tax cut. But we're not even back to the base level we were prior to that. I'm just trying to get something passed and I don't think without a base year, or to just concentrate on income taxes and not sales tax that it's going to be hard to do. And I'm just...but there's no...I guess my question was is there a base year in this bill? [LB337]

TONY FULTON: The base year is this begins in 2020, so November of 2019. So to the short answer to your question is that November of 2019 is when the first consideration will be given. [LB337]

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SENATOR GROENE: I guess a better way to phrase it, is there a floor that the whole calculations are based off of then? [LB337]

TONY FULTON: This is the whether there is a deferral depends on the projection of growth. [LB337]

SENATOR GROENE: Thank you. I'm for a tax cut. I just want to make sure we can afford it. [LB337]

TONY FULTON: Yeah. It's worth pointing out, I think, that what you're perhaps getting at is that in the scenario you lay out, that there is a 10 percent decline and then the following year there's a 3.6 percent increase, you know, there shouldn't be a tax cut in that year because there was more loss in the year previous. [LB337]

SENATOR GROENE: But there will be the way it's written. [LB337]

TONY FULTON: There would be in the way that it's written. But I just point out that historically one can go back, and this is something that the Governor has done, and we've looked at this also, it doesn't...the Forecasting Advisory Board tends to be conservative. You'll see that there are more times when there was more revenue collected than was projected, versus the vice versa which you're outlining. But that would be a potential in this bill admittedly. [LB337]

SENATOR GROENE: Just want to do it right. Thank you. [LB337]

SENATOR SMITH: Senator Lindstrom. [LB337]

SENATOR LINDSTROM: Thank you, Chairman. On average, what has been our growth rate in the state? [LB337]

TONY FULTON: You mean for revenue growth? [LB337]

SENATOR LINDSTROM: Yeah. [LB337]

TONY FULTON: I think it was... [LB337]

SENATOR LINDSTROM: Going back to the 3.5 percent trigger here, what has been the average? [LB337]

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TONY FULTON: Back in day when I was over here, it was 5.-something. I believe it's now 4.-something. I think it was 4.7 to 4.9. [LB337]

SENATOR LINDSTROM: So on average typically we will be above the 3.5 percent? [LB337]

TONY FULTON: Yes. For revenue growth, yes, 4 or 5...I'm not positive on the number, but it was 4.-something. [LB337]

SENATOR LINDSTROM: So above the 3.5. [LB337]

TONY FULTON: It was above 3.5. [LB337]

SENATOR LINDSTROM: Okay, thank you. [LB337]

SENATOR SMITH: Senator Schumacher. [LB337]

SENATOR SCHUMACHER: Thank you, Chairman Smith. Thank you, Commissioner Fulton, for being here today. A couple of different questions, first of all, if we were to magically implement this today and drop our tax rate to 5.99 percent, how much would that hit our revenue? How much off would we drop? [LB337]

TONY FULTON: To go from 6.84 to 5.99 we'd have to... [LB337]

SENATOR SCHUMACHER: Right, if we just waved a magic wand and how much less revenue would we have? [LB337]

TONY FULTON: The math isn't going...I would need more time to do the exact math, but somewhere between \$30 (million) and \$35 million is what our fiscal note, the delta, that 0.1 percent. So if we waved the magic wand and got it all the way down to 5.99 percent, I'd have to do the math on this. [LB337]

SENATOR SCHUMACHER: Today, I mean, that would be 0.85 percent of...is what we'd be dropping it. I think Senator Harr had a bill up a year or two ago, which he juggled and got 1 percent. It seemed to me that was in the hundreds of millions of dollars in lost revenue. [LB337]

TONY FULTON: Probably so. Yeah, I'm sorry, I'd have to do the math on it. [LB337]

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SENATOR SCHUMACHER: All right. So then the next question is I've done, as you have, done some work with small businesses. And a small business in Nebraska who shows on their tax return that they made \$300,000 in a year is doing pretty darn good. That's six times our median wage and you have to be in a really, really good small business in order to do more than that. So let's pretend I or you have that \$300,000 and let's just, for simple government work, not take into account the standard deductions and all that other stuff that might mess up our numbers. So I punch \$300,000 in my calculator and take it times 0.85 percent and I get a figure of \$25,000--\$25,050. Now I get to deduct my income taxes so I'm going to have to pay, because I saved that much in state taxes, I'm going to have to pay more federal tax to about the tune of a third. So I've got \$1,700 left over after this tax cut. And I suppose by the time I'm earning \$300,000 my kids are probably out of school and I've, you know, got something to do with the \$1,700. And honestly, what do you do? Do you make a trip out of state? If you're frugal, like many of us are, you put it on the stock market and do a little gambling there. But that money is deployed out of state. I might put it in the local bank and get, you know, close to 0 percent interest, but chances are that bank will buy T-bills or add to its reserves at the Federal Reserve, all out of state. So there's not enough there to create a job. There's not even enough there to create one month of wage of a rather low-paying job. So materially, how is this helping? [LB337]

TONY FULTON: Okay. It's a good question, and I think if we are looking at this simply in terms of one year at a time, that's a way to look at this bill. I think I'm repeating a little of what the Governor has said here, but there's also some experiential knowledge that comes into play here. Oftentimes a business isn't looking one year at a time and the businesses are planning, I mean, at my business we have, you know, three-year, five-year, ten-year plans that we're putting together. So that's the first thing that while in your scenario let's say it's \$1,700, that can be planned for over a period of time and so if it's a 10-year time horizon they're planning for, then it's \$17,000; it's 20 years, it's more. So that's one item. Number two, let's assume nothing is done. Those businesses that are contemplating relocating to Nebraska will have been sent a message that we are at 6.84 percent and that's it. By implementing this bill, there's a communication as to how one can prudently--and I say prudently because I was on the Appropriations Committee, I understand this is a hard deal--how prudently we will get to this tax rate. And so not only is there a planning process that goes in place for individual businesses but also businesses who are considering contemplating moving, expanding. There are, I am certain, businesses in Nebraska who are contemplating a move or an expansion, perhaps outside the state. And so while these numbers in one year may not look like much, for a business over the course of a lifetime, if the business is thinking of starting, these are considerations that are given that look beyond just a one-year horizon. So it would be a great blessing to the state if there could be more tax relief contemplated and I think the Governor is probably catching fire from both those who say this isn't enough and those who say you shouldn't do it. And, you know, my experience on this body is when you're in the middle of the crossfire, well, you might be in the right place. This is, I

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think, a prudent and measured approach as to how can get to a more competitive tax environment for those businesses who are contemplating what to do in the near future. [LB337]

SENATOR SCHUMACHER: Thank you, Commissioner. [LB337]

SENATOR SMITH: Senator Harr and then Senator Friesen. [LB337]

SENATOR HARR: Thank you. I guess to follow up on Senator Schumacher, do you know, can you name one company that left this state because of high taxes? [LB337]

TONY FULTON: Say it...I didn't hear, sorry. [LB337]

SENATOR HARR: Do you know one company that left this state because of high taxes? [LB337]

TONY FULTON: I do. I'm not going to name...I know people who have left this state and... [LB337]

SENATOR HARR: I didn't ask about people; I asked about businesses. [LB337]

TONY FULTON: Well, this is a personal... [LB337]

SENATOR HARR: Because you were saying businesses would come because of low taxes, I'm going the other way. Name one business that left. [LB337]

TONY FULTON: I do know of, yes, I do. [LB337]

SENATOR HARR: Okay, and where did that business go? [LB337]

TONY FULTON: They went to Arizona. [LB337]

SENATOR HARR: Okay, and do you know what the tax rate is there? [LB337]

TONY FULTON: I'm sorry, I don't. [LB337]

SENATOR HARR: Okay. And do you know how many jobs... [LB337]

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TONY FULTON: And just to be...I'm not positive that that's why they left, but that's what they said to me. [LB337]

SENATOR HARR: Okay. [LB337]

TONY FULTON: And these are anecdotes, I just want to record to show. [LB337]

SENATOR HARR: Right. Do you know how many jobs left? [LB337]

TONY FULTON: I don't. [LB337]

SENATOR HARR: Okay. [LB337]

TONY FULTON: I know they own a business. I don't know how many they employ. [LB337]

SENATOR HARR: All right, thank you. So I'm looking at let's pretend 2019 is 2006 or, excuse me, 2007. Two thousand seven we had a 3.8 percent increase and it went down 4.2 percent, right? And then, you know, we have a number of years after that where our rate of growth is below what is projected. And I just want to follow up on Senator Groene's comments. Would you be amenable to, hey, a base year? So, you know, first year, hey, we grew 3.5 percent. Awesome. Next year we drop 7 percent, next year we grow 3.5. We aren't in year three where we were year one, but we're lowering the tax rate again. Do you think we should have a baseline like Senator Groene suggested? [LB337]

TONY FULTON: That which the senators in this committee to work on... [LB337]

SENATOR HARR: Okay. [LB337]

TONY FULTON: ...I'm willing to work on it, insofar as the Governor is willing to work on it. [LB337]

SENATOR HARR: Okay, because I'm looking, we were projected to have a 3.6 percent growth. And when we left sine die in the last session, we not only had a balanced budget, we had a 3 percent cushion plus \$4.5 million. And now we're looking at \$9 million short...\$900 million shortfall, and we would have looked at an even larger shortfall if we had had that 1 percent or 0.1 percent tax cut in there. What in this bill...because I heard the Governor state this is the opposite of Kansas. We're going to control spending before we cut taxes. What in this bill or any other

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legislation introduced this year controls spending as he...so we don't have the Kansas situation?
[LB337]

TONY FULTON: I'll refrain from asking whether...the expenditures and spending is set in the Appropriations Committee of the Legislature with the Governor, so this bill does not contemplate that, nor should it. [LB337]

SENATOR HARR: So it's just the self-discipline of the body but nothing that...no specification legislation that limits spending. [LB337]

TONY FULTON: This does not limit spending. This is a revenue bill. [LB337]

SENATOR HARR: Okay. Do you know of any legislation that does limit spending... [LB337]

TONY FULTON: I'm sure there's... [LB337]

SENATOR HARR: ...this year that complements this bill, so we don't have the Kansas situation?
[LB337]

TONY FULTON: This bill is prudent in that it allows for 3.5 percent growth. If there are other bills out there that limit spending and such in some way, I'm sure they exist, not here to comment on those. [LB337]

SENATOR HARR: Okay. [LB337]

TONY FULTON: If you want me to testify on them, maybe. This scenario, it is legitimate I think to consider what happens when the projection is higher than 3.5 percent, but receipts actually lag, are less than 3.5 percent. That's legitimate. I'll simply ask the committee to look at what's happened historically and you're going to find that that's happened once in the past 15 or 16, I think it's 2001, so 16 years, whereas the opposite was true, I believe it was, 7 or 8 times. I'll just ask the committee to look at that. That's something that was considered. If there is statutorily a way to define how such a situation could be handled in the future, the art of language, the one to communicate that is done over on this branch of government. Whatever I can do to help that along, I'd be glad to help along. I just, it's my job to collect the taxes that are set forth in the statute and so I want to be careful not to, you know, get ahead of my skis. I just, I think we have to do something as a state. And to walk away and say, oh gosh, we can't do this now, I think would be really unfortunate. [LB337]

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SENATOR HARR: If I could ask just two more questions. And first of all, it's been six times since 2001 where projections have been lower than receipts. The first question... [LB337]

TONY FULTON: Been lower than 3.5 percent? [LB337]

SENATOR HARR: Oh no, lower than...well, projections are lower than receipts. So that's a situation I'm concerned about. [LB337]

TONY FULTON: Well, but with respect to this bill, it would only be once, 3.5 percent. That's the...that statutorily what's defined in the bill (inaudible). [LB337]

SENATOR HARR: Okay. Which leads me to my next question, the projected growth. What should that, the tax TRR Committee look to when they come to that 3.5 percent growth? There's nothing in the statute that says what they should or shouldn't look to, is there? [LB337]

TONY FULTON: Well, they would be looking at the projections put forth by the Nebraska Economic Forecasting Advisory Board. [LB337]

SENATOR HARR: So it's looking at the Forecasting Board? [LB337]

TONY FULTON: Yeah, that projection. That incidentally is the projection by which our budgets are set. [LB337]

SENATOR HARR: Okay. [LB337]

TONY FULTON: So the Department of Revenue and the Legislative Fiscal Office provide input to the Forecasting Advisory Board. [LB337]

SENATOR HARR: Okay. [LB337]

TONY FULTON: They put forward their forecast--October, February, April and then... [LB337]

SENATOR HARR: Could they go off of something different than what the Forecasting Board...if the Forecasting Board says 3.4, could they say 3.5 or vice versa? [LB337]

TONY FULTON: If this bill were to pass, the answer to that would be no. [LB337]

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SENATOR HARR: And why is that? [LB337]

TONY FULTON: Because the word "shall" is used. They shall...here, I can show you in the bill where. [LB337]

SENATOR HARR: I don't remember seeing that. [LB337]

TONY FULTON: Yeah, in the new language, so this is page 3 of the green copy. You're catching me on the fly here, but I think we're on line 17 of page 3: If the expected rate of growth in net General Fund receipts does not exceed three and a half...three and one-half percent for the upcoming fiscal year, the Tax Rate Review Committee shall... [LB337]

SENATOR HARR: Examine. [LB337]

TONY FULTON: ...declare. That would be one place. But this looks...this is based on the Nebraska Economic Forecasting Advisory Board's projection. [LB337]

SENATOR HARR: Well, it says...and I don't want to take up too much of the committee's time, but it says the Tax Rate Review Committee shall also examine the expected rates of net growth...as determined. It just says they should examine, it doesn't say that they have to follow it. [LB337]

TONY FULTON: No, it says it shall declare. [LB337]

SENATOR HARR: What's that? [LB337]

TONY FULTON: "Shall declare" in line 19. [LB337]

SENATOR HARR: Where are you, "shall declare"? [LB337]

TONY FULTON: In line 19. [LB337]

SENATOR HARR: Yeah, they have to declare what it is, but it doesn't say they have to go off of the forecast. It just says they'll examine it. [LB337]

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TONY FULTON: Well, if the language needs to be stronger, such that the Tax Rate Review Committee makes their determination based on the Nebraska Economic Forecasting Advisory Board, then that language can be made more clear. [LB337]

SENATOR HARR: Is that what you would prefer? [LB337]

TONY FULTON: I think the language is clear as it is now. But I'm not a lawyer. [LB337]

SENATOR HARR: But I'm asking you would you prefer that it be based on the...that the revenue...because I don't think it is clear, but you think it should be based on what the Nebraska Economic Forecast Advisory Board says? [LB337]

TONY FULTON: The projection. [LB337]

SENATOR HARR: Projections, right,... [LB337]

TONY FULTON: Yeah. [LB337]

SENATOR HARR: ...which have never been right, correct? [LB337]

TONY FULTON: Projections tend not to be precise when... [LB337]

SENATOR HARR: Okay. [LB337]

TONY FULTON: ...in hindsight. I'll admit that to you. [LB337]

SENATOR HARR: Okay. Appreciate it. [LB337]

SENATOR SMITH: Senator Friesen. [LB337]

SENATOR FRIESEN: Thank you, Chairman Smith. I guess I'll just follow up with Senator Schumacher's line of questioning. I mean, he says \$1,700 isn't much, but if we follow that reasoning, let's raise taxes \$1,700. What kind of jobs would we create in the state then? [LB337]

TONY FULTON: It's a great question, Senator. Again, I don't want to get ahead of my skis here, but I'll just say that I've communicated to my colleagues in the Department of Revenue, we have

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a great obligation to, you know, to faithfully execute the statutes, to do so in an effective and cost-effective way with integrity for the taxpayers. I tell them, I say this, that we need to recognize that we the government are not the ones who are handing out money to the citizens. I'm employed. We are employed. By the good grace of the citizens of Nebraska, they pay for us. It's their money we're taking. And that's...I understand there are different philosophies about that, but that's the way I see it and I try to communicate that to my department. So when I hear that there's going to be less money taken from a taxpayer, I don't see that as we are writing checks to the taxpayer. And I think that's how it's presented sometimes. [LB337]

SENATOR FRIESEN: Thank you, I agree. [LB337]

SENATOR SMITH: Thank you, Commissioner Fulton. Appreciate your testimony today. [LB337]

TONY FULTON: Thank you, Chairman. [LB337]

SENATOR SMITH: We now move into the proponent section of the hearing and this is where we begin to use the light system. And we're going to spend roughly the next 30 minutes on proponents. So with that, welcome. [LB337]

COURTNEY DENTLINGER: (Exhibit 2) Thank you. Good afternoon, Chairman Smith, members of the Revenue Committee. For the record, my name is Courtney Dentlinger, and that's C-o-u-r-t-n-e-y D-e-n-t-l-i-n-g-e-r. I'm the director of the Nebraska Department of Economic Development, or as I'll colloquially refer to it, DED, to save time today. I'm here testifying in support of LB337. From an economic development perspective, a lower income tax rate is beneficial for a number of reasons. But I want to focus on three. One, existing businesses in the state have expressed great interest in reducing income tax. Providing a business-friendly climate and not unduly increasing operating costs is essential for future growth of these businesses. Businesses are making decisions each year whether to expand, whether to contract, and where to operate. They have choices. Positioning our state for continued growth of existing industry is in our interest. Recruitment is very important, and I'll touch on that in a moment, but growth of existing businesses in the state is imperative to future growth of the state itself. Number two, business recruitment gets more and more competitive every year. Businesses and their representatives and agents carefully evaluate location decisions. There are numerous factors at play: Access to markets, customers, raw materials, or suppliers; work force availability, including skilled, technical, and management work force; support infrastructure, including utilities and transportation; the availability of properties conducive to development; a state's regulatory climate; the availability of incentives; and variable operating costs, including labor, logistics, utilities, real estate, and taxes. Taxes are not the only determining factor, but businesses

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are looking at numerous states. If we're weak in one of these areas it can lead to elimination from consideration, often before we are even aware that we're in contention in the first place. We continually assess our standing compared to other states and support policy that will improve our standing and increase our ability to attract jobs and investment to the state of Nebraska. The third point I have is work force availability. It's one of the top issues for retention and expansion of existing businesses and industries in the state. It is also one of the top issues for companies when considering a state for a new project. Companies are looking for communities with good quality of life and low cost of living to improve their ability to recruit talent. State income tax is a factor they take into consideration when determining whether they will be able to attract the talent they need. I appreciate the opportunity to appear before you today. I've kept my comments very brief to be respectful of your time and of everyone here, but would be happy to take any questions from the members of the committee. [LB337]

SENATOR SMITH: Thank you, Director Dentlinger. Do we have questions from the committee? Senator Groene. [LB337]

SENATOR GROENE: Bass Pro Shop, they're making a decision, they could move their whole headquarters to Sidney, right? [LB337]

COURTNEY DENTLINGER: Uh-huh. [LB337]

SENATOR GROENE: What's the tax rate in Missouri versus the tax rate in Nebraska? You know? [LB337]

COURTNEY DENTLINGER: In Missouri, yeah, I have it right here. Missouri is 6. [LB337]

SENATOR GROENE: Six percent on their income taxes? So they have an advantage. [LB337]

COURTNEY DENTLINGER: They have an advantage. [LB337]

SENATOR GROENE: And I do know of a company in North Platte that the owners still live there, but their headquarters are in Wyoming. Pretty good size construction company also. [LB337]

COURTNEY DENTLINGER: We see it particularly on the borders, where companies will leak over. I worked in northeast Nebraska prior to being recruited to the state level and we had a lot of companies move to South Dakota because of the tax rate. [LB337]

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SENATOR GROENE: Thank you. [LB337]

COURTNEY DENTLINGER: Thank you, Senator. [LB337]

SENATOR SMITH: Thank you, Director. Oh, sorry. Senator Schumacher has a question. [LB337]

SENATOR SCHUMACHER: Thank you, Chairman Smith. Now, following up on Senator Groene's question, Bass Pro Shop is a what they call a C corporation. They're not a little baby corporation that's taxed as a Sub S. And we have a pretty high corporate tax rate in this state, far higher than our state personal income tax rate. But this does nothing about that. So if we're attracting a business that's a corporation that's an employer that can bring in a lot of numbers and something like Bass Pro Shops, wouldn't we want to attract them through the corporate income tax cuts rather than a personal income tax cut? [LB337]

COURTNEY DENTLINGER: It's a good question, Senator. I will tell you the first thing that I hear now from companies that are looking at a location decision, where to locate, is availability of work force. And so they are at present more concerned with how they're going to get the workers that they need. And again, that quality of life and cost of living in a state, including the personal income tax, is something that is higher on their list. [LB337]

SENATOR SCHUMACHER: But the work force range that they'd be looking for is, chances are, under \$60,000, closer to our median wage in the state? [LB337]

COURTNEY DENTLINGER: Well, we are...we do have a concerted effort now on attracting those high-wage jobs. [LB337]

SENATOR SCHUMACHER: Right, but under \$60,000 is a safe bet that that's where the bulk of the work force would land on any large number of employees. And after you take off the standard deduction and the exemptions and all that, that worker, out of this particular tax cut, which is targeted at the upper quintile...whatever, fifth of the population, they don't get a very big bite of it when you're in that \$60,000 category because you don't have that much money after your deduction is actually taxed at the 6.84 percent rate. So, I mean, why? [LB337]

COURTNEY DENTLINGER: I understand where you're coming from. What I would say is this. Because of the competitive nature that we have right now for location decisions, it's an elimination game. They're looking for any opportunity to eliminate you. So even if we match up on many of the factors, if there's one where we don't match up, where we're ranked 28th out of

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50 states, we get cut out. So even if it doesn't seem like a big difference, it means we're no longer in consideration for the project. [LB337]

SENATOR SCHUMACHER: So we don't get, in your experience as director of Economic Development, we don't get any bonus points for having a 10 percent lower cost of living? We don't get any bonus points for having a good public school system and you don't have to spend \$10,000, \$20,000 a year on private education? We don't get any bonus points for this? It's just, oops, we're off by 0.85 percent on taxes and you're out. It's as simple as that. [LB337]

COURTNEY DENTLINGER: Well, nothing is simple in economic development. I wish it were. But we do everything we can to try to tell that story. The difficulty is I have a department of 59 people, not everybody is in business recruitment, a very small portion of that. We do all we can to get the message out and to tout the quality of life and the low cost of living in the state of Nebraska, even right down to commute times. Because I'll tell you, people on the coasts and in larger cities don't understand what a benefit that is to quality of life. We can't get to everyone, as much as we try, and so they look at statistics, they look at rankings, they look at numbers such as these. And 0.8 percent might not seem like much, but if it moves you down a list seven spots behind other states, it's a big deal. [LB337]

SENATOR SCHUMACHER: One last question, Mr. Chairman. But so many of the rankings that we hear lately, and almost every week some chamber newsletter or something that says, gee, we scored top three, top five, top this, top that. And we actually don't look too shabby on all those different rankings. [LB337]

COURTNEY DENTLINGER: We do. We look very competitive on a number of different rankings and we tout that heavily when we're looking at companies that are considering moving to this state. We just don't want to have an Achilles heel. [LB337]

SENATOR SCHUMACHER: Thank you. [LB337]

COURTNEY DENTLINGER: Thank you, Senator. [LB337]

SENATOR SMITH: Senator Harr. [LB337]

SENATOR HARR: Thank you. And in fairness, we don't do well on WalletHub, so. Do you know what the effective rate is for the top 1 percent of taxpayers in Nebraska? [LB337]

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COURTNEY DENTLINGER: No, I don't. I know we have a relatively low effective rate. [LB337]

SENATOR HARR: Okay. Do you know what it is for the top quartile? [LB337]

COURTNEY DENTLINGER: I don't. [LB337]

SENATOR HARR: Okay. [LB337]

COURTNEY DENTLINGER: I'd have to defer to my colleague Tony Fulton. [LB337]

SENATOR HARR: Are we competitive when we look at effective rates versus marginal rates? [LB337]

COURTNEY DENTLINGER: I think we are more competitive when we look at effective rates than marginal rates. I don't know that site selectors in companies are looking at that as closely as our... [LB337]

SENATOR HARR: Okay. And do you know what the top corporate rate is in Illinois? [LB337]

COURTNEY DENTLINGER: I don't. [LB337]

SENATOR HARR: Okay. Are you aware that...would it surprise you if I told you it was more than Nebraska? [LB337]

COURTNEY DENTLINGER: No. [LB337]

SENATOR HARR: Okay. Would it surprise you if I told you a large employer in Omaha left Nebraska for Illinois? [LB337]

COURTNEY DENTLINGER: No, I'm well-aware. [LB337]

SENATOR HARR: Okay. Okay. So am I, unfortunately. Well, I appreciate you coming here today. One last quick question. Do you think it's more important when businesses are coming to have...to lower the rate and broaden the base, or is it to have targeted tax incentives for individual industries that we're trying to incentivize in the state? [LB337]

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COURTNEY DENTLINGER: I wish it were as easy as an either/or. [LB337]

SENATOR HARR: Me too. [LB337]

COURTNEY DENTLINGER: We really need to look at being competitive in both areas. [LB337]

SENATOR HARR: And so we have to make that decision here, right? And so we have to prioritize. Given your experience and your knowledge of bringing new business, which would you recommend? [LB337]

COURTNEY DENTLINGER: That's like asking somebody looking for a new neighborhood if they want good schools or good neighbors. You really need to find a balance with both in order to be competitive. They're looking at other states that do have both. [LB337]

SENATOR HARR: Okay, thank you. [LB337]

SENATOR SMITH: Thank you, Director, for your testimony. [LB337]

COURTNEY DENTLINGER: Thank you. [LB337]

SENATOR SMITH: Appreciate it. You got to be fast. Thanks for moving fast, Mr. Mach. [LB337]

COBY MACH: (Exhibit 3) I will be fast. Good afternoon. My name is Coby Mach, C-o-b-y M-a-c-h. I am the president of the Lincoln Independent Business Association. We have approximately 1,350 members here in the city of Lincoln. I am handing out a letter today from a small business owner by the name of Paul Zoz, who has agreed to share his story. He moved to Florida a number of...a few years ago, and he did it not for the sun, not for the beach. He moved to Florida because of the income tax. He loves Nebraska, he's raised his kids here, he loves the Huskers, he returns often. But now in the last two years, when he has had a chance to expand his business, he has done so in Florida. He's found it much easier to recruit employees to Florida because of the sun, the beach, and no income tax. The growth in his company right now is not occurring as fast at 84th and O Street in Lincoln as it is in Florida, although he does still maintain a strong business presence here in the capital city at 84th and O. His personal letter will tell you that he believes from his company alone it has cost Nebraska millions of dollars in economic activity just from the loss of that activity occurring here in the state. I know there are a

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lot of people that want to testify, so I'll close my comments and I will thank you for your time.
[LB337]

SENATOR SMITH: Thank you, Mr. Mach. Senator Harr. [LB337]

SENATOR HARR: Thank you. Thank you for coming in today, I appreciate it. Do you think he would have stayed in the state if we had lowered it to 5.99? [LB337]

COBY MACH: I would have to ask him that. [LB337]

SENATOR HARR: Yep, if you could him and get back to us, I'd appreciate it. Thank you.
[LB337]

COBY MACH: Okay. One thing I can tell you is if we don't lower it, he certainly would not have. [LB337]

SENATOR HARR: I appreciate that. [LB337]

SENATOR SMITH: Thank you, Mr. Mach. [LB337]

COBY MACH: Thank you. [LB337]

SENATOR SMITH: Welcome. [LB337]

JIM VOKAL: (Exhibit 4) Thank you, Chairman Smith. Good afternoon. My name is Jim Vokal, J-i-m V-o-k-a-l, and I'm the CEO of the Platte Institute. Individuals, families, and small businesses that earn solidly middle-class income are running up against Nebraska's top personal income tax rate. LB337 would help rein in this burden. Right now, every new dollar these Nebraskans earn in our state costs them about 7 cents, and this does not include federal taxes. This tax rate has not changed for the better in the last 20 years, during which time other states with lower taxes have enticed Nebraska's families, retirees, and small businesses to relocate. IRS records show that since 1992 a net total of over \$3 billion in adjusted gross income has left Nebraska, the majority of which found its way to states such as Texas, Florida, Arizona, Colorado, and Missouri, which all levy lower top personal income tax rates or none at all. Census data published in the Omaha World-Herald show most of these states leading the country for gaining college-educated residents on the whole, while Nebraska was among the ten worst states for losing these residents in 2015. Four out of five also experienced faster population

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growth and created more jobs than Nebraska over the last decade. Independent experts from the Tax Foundation to the Small Business and Entrepreneurship Council have written about how marginal tax rates factor into this problem. Approximately 90 percent of the income taxes paid in Nebraska are from taxpayers paying the top rate, which includes our small businesses. We can't attract more people and income to Nebraska...I'm going to have to apologize. I'm not feeling very good right now. Sorry about that. [LB337]

SENATOR SMITH: It's okay. Sorry to hear that. Next testifier, please. Welcome. [LB337]

JACK SCHREINER: Thank you. Good afternoon, Senators. My name is Jack Schreiner, J-a-c-k S-c-h-r-e-i-n-e-r. I'm the CEO of a company in Hastings called Bruckman Rubber Company. It's a company that's been around for 55 years. I've had the pleasure of being there 40 of those years. I feel like I'm not really here though just representing small business, although it's extremely important, but I think I'm representing my employees and every other taxpayer here because most of us small businesspeople are paying taxes the same way that our employees do. So it benefits small business and it effects all the others also. I also feel like I'm representing the retirees here because if it wasn't for all of these damn taxes I could maybe retire finally. And that would be kind of nice. So, you know, I'm talking to businesspeople here. So you guys know what it's like. You bust your tail every day and you get up early and you work hard and you try to keep your business alive, and that's not easy to do. You know how many failures are out there. And you try to make a living. And when you're done all doing that, the government reaches in and they grab whatever they want, and that can be up to about half of it. Between the state and the federal, that they're going to take a big chunk of your money. Well, you got that left and now what happens? You go out and here you go again, now you got property tax, now you got sales tax, now you got gas tax, you got hotel tax. Hell, there's even a group called sin tax anymore. I mean, it just goes on an on. And then when they need a little bit more money you always got fees you can put in there. So there's a point where the taxpayer just can't do it. Now, this bill, LB337, has a lot of great features, and I'm not going to go over all of those with you and waste your time. That's already been done. My thing is that I don't see how the approach to it, although you could maybe end up with a couple of...I think there was some good ideas on some amendments here that might be appropriate, but I don't see how it's not a very doable thing. It just seem...we don't bust the budget with it. You know, I just got to think that you folks took on this unthankful job that you have not just for the big bucks we're paying you, but I'm sure that's a big part of it, but also I think that it's because you got sick of people thinking that they knew how to spend your money better than you did. I think that some of you probably got in here just for that. We're paying to much in taxes and I hope that you'll support this bill. Just please put it on the floor and let's see what shakes out. Thank you. [LB337]

SENATOR SMITH: Thank you, Mr. Schreiner. Appreciate your testimony. Next proponent of LB337. Welcome. [LB337]

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JEFFREY M. SCHERER: (Exhibit 5) Good afternoon, Chairman Smith and members of the Revenue Committee. My name is Jeffrey M. Scherer, J-e-f-f-r-e-y M. S-c-h-e-r-e-r. I'm testifying today on behalf of the Nebraska Chamber of Commerce and Industry. I served as their chairman in 2011. I started practicing public accounting in the mid-1980s right after the Tax Reform Act of 1986 and spent 25 years as a CFO. I'll pass out some copies for you to read at your pleasure afterwards. I want to give you real quickly the top ten reasons I believe LB337 should be enacted into law. Simply put, Nebraska is uncompetitive in income taxes. The state's current 6.84 percent individual rate is 15th highest in the country. You've heard all our neighbors, with the exception of Iowa, have lower rates. Number two, Nebraska's small and mid-sized businesses need tax relief. Ninety percent of the businesses in this state are what is considered pass-through entities that pay at individual rates, S corps, partnerships, LLCs, etcetera, not to mention all the individual proprietorships. Number three, much of the tax relief in LB337 would benefit job creators in our state. Up to nearly 400,000 people in Nebraska are employed by small businesses and most of those employers are paying income tax at an individual rate level. Number four, don't forget the heavy impact of federal income tax. Coupled with the federal rates, we're paying just under 48 percent, the tenth highest in the U.S. according to the Tax Foundation. High taxes are a factor for population loss. It's been mentioned here, brain drain, today, out-migration. The fact that we've lost people to Wyoming and South Dakota, states with no income tax, for 14 out of the last 15 years I think says a lot. Number six, income tax relief is also a work force issue. You heard Courtney's comments. It's hard to attract people into the state, especially the high incomers that have an opportunity to maybe live in Dakota Dunes and drive into Dakota City, South Sioux City, or certainly into other parts of Nebraska and have no income tax burden. We're looking, you know, the number one issue in the state is work force development and the need for skilled labor. And I believe, based on the businesses that are coming into Nebraska, the businesses we'd like to attract, most of what we're going to bring in is probably people over that \$29,000 annual average. Number seven, the income tax footprint has grown larger. Nebraska's individual income tax counts for nearly 52 percent of today's revenue. And I'll wrap this up real quick, we've not lowered it in 20 years. This is responsible tax relief, as you've heard, and if we really want to grow our economy we must provide income tax relief. And I point back to that Tax Reform Act of 1986 and the history speaks for itself. So with that, I conclude my comments. And again, thank you all for allowing me to be here today and exercising my right. [LB337]

SENATOR SMITH: Thank you, Mr. Scherer, for your testimony. We're going to take a question from Senator Groene and then we'll probably going to be able to take about two more proponents on LB337. Senator Groene. [LB337]

SENATOR GROENE: Just a quick one. You said 52 percent of the General Fund is income taxes? [LB337]

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JEFFREY M. SCHERER: Fifty-two percent of the state's revenue is derived from individual income taxes. [LB337]

SENATOR GROENE: Individual. How much is corporate? [LB337]

JEFFREY M. SCHERER: I can't answer that, sir. I don't have that answer with me. [LB337]

SENATOR GROENE: Thank you. [LB337]

SENATOR SMITH: Senator Harr. [LB337]

SENATOR HARR: Thank you. Do you know what the effective rate is in Nebraska or if it's competitive with other states? [LB337]

JEFFREY M. SCHERER: I think that overall, Senator, our effective rate is probably not what's being looked at when companies are looking at Nebraska and looking at our competitive environment, our business environment as a whole, and they're looking at all the...everything from availability of work force to the tax rates themselves. And I believe that top marginal rate is what's killing us. We've seen an improvement in nearly every area over the last 10 to 15 years in our business competitiveness, with the exception of income taxes. [LB337]

SENATOR HARR: And I'm not as sophisticated financially as you are, and I get that. But to me, what I care about is how much money comes out of my pocket. And so to me, effective rate is more important than marginal rate. I don't care what the sticker price is on a car; I care what I paid for the car. And so, I mean, again, I'm not as sophisticated as you, but I would think a person of your sophistication would care about the cost is, not what the advertised cost is. [LB337]

JEFFREY M. SCHERER: Well, I can tell you, Senator, it varies individual to individual. And I think, at least in my time in public accounting, I always talked to people, talked to clients about income tax being a good problem to have. And that's true to an extent because it's a progressive system and I think that's the way it should be. But the fact is that when you look at people that are being hit with a top rate at \$29,000 that's just...it's hard to fathom people making that kind of money, and the percentage of what they pay in taxes as a percentage of their gross income. I don't think it's fair. [LB337]

SENATOR HARR: (Inaudible). Okay, thank you. I appreciate it. [LB337]

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SENATOR SMITH: Thank you, Mr. Scherer. [LB337]

JEFFREY M. SCHERER: Thank you. [LB337]

SENATOR SMITH: Next proponent. Welcome. [LB337]

ERIC DINGER: Thanks for having me. Thank you, Senator Smith, and hello, everybody. My name is Eric Dinger, E-r-i-c D-i-n-g-e-r. I'm here testifying on behalf of myself and the Lincoln Chamber of Commerce. What I'm hearing you all say today is the challenge is prioritization. And I don't envy this job at all. As businesspeople, we always obviously have to prioritize all the time. And as I look at the challenge of the budget shortfall I think to myself, if I was on the Revenue Committee, how would I address that over time? And that has everything to do with priorities, right? So I think it's pretty obvious the reason we have shortfalls and the reason we have surpluses is tied to the commodity prices. I believe our state is heavily levered in ag. And I think as a state, as a spokesperson for the Chamber of Commerce, I think it's important that we listen to the people who are experts in business saying if we want to grow main street, if we want businesses to thrive and pay a higher wage then we have to find ways for them to pay lower taxes. I'll cut my comments there with a very quick story. And this is an anecdote from my life. So I've owned a business my whole life. My first one was when I was 12. I started a pheasant cleaning business. Twenty-three years old, I started a business in Nebraska, just had graduated from the university. And we did, in our fourth or fifth year, we finally made a profit. We did let's say \$1 million in sales, and just for easy math, it was rougher than that, and \$100,000 in profit. And because we were an accrual-based accounting firm and we were a services shop, we had most of our profit sitting in accounts receivable. And that year I took out a loan to pay my personal income taxes, a business loan so that I could take a dividend to pay my personal income taxes. I don't even know if that's how you're supposed to do it, but I was 27 years old and I didn't know. But what I did know was that \$7,000 hurt my business in a way that I paid for long into the future, and I don't think it's necessary. Be happy to answer any questions. [LB337]

SENATOR SMITH: Thank you, Mr. Dinger. Have questions from the committee? Seeing none, thank you for your testimony. Welcome. [LB337]

BRIAN GUBBELS: Thank you. Vice Chair Friesen, members of the committee, I am Brian Gubbels, B-r-i-a-n G-u-b-b-e-l-s, and I am chairman of the Small Business Assistance Council in Greater Omaha Chamber and I'm also a small business owner. And today I am here to support this LB337. And much appreciation to you, Senator Smith, and Governor Ricketts for proposing this to the committee. We are glad to see that income taxes are a part of the overall tax burden debate this year. You have so many proposals to consider and as to the tax reform agenda. While we understand the burden that various states and local taxes impose on Nebraskans and the

weight of those can be relative and subjective thing, the Chamber continues to consider reducing income tax rate, particularly the top rate, to be of the highest priority. I believe we don't have a tax issue as much as we have a quantity of taxpayers in this state. That's the issue. To increase the number of taxpayers, you need to increase the number of good-paying jobs. To increase the number of good-paying jobs, you need to increase the number of companies. To increase the number of companies, you need entrepreneurs and investors. They're the catalysts of our economy and if we attack them continually, that is the issue. So the bigger issue I'm concerned with is not about the businesses that are here today, what are the businesses that we don't even know about that didn't come here. Those are the ones that I'm most concerned about. And ultimately, this bill is not a significant reduction, it's probably not going to make any much decision in terms of whether or not I keep my business here, a lot of the business owners and entrepreneurs that I work with to change them whether or not they're going to be committed to this state. I'm committed to this state because of the people here. I like my life here. I grew up on a farm in northeast Nebraska here. I like it here. But this is about attracting the people we don't even know are not here. And I think ultimately if we start understanding that, if we change the thinking of how we look at taxes in this state and how we look at the economy and how we grow the fiscal note and how we grow the revenue, I think then we'll be getting at the root of the problem. And I love this bill for that fact because, one, it doesn't have impact to us immediately. It doesn't have an impact unless there is actual gain. And what you're sending a message to small business owners is you understand. You understand that the thinking here needs to be in the change, and that's why I'm excited about this bill, and I'm glad you guys are listening to this one. Thank you. [LB337]

SENATOR SMITH: Thank you, Mr. Gubbels, for your testimony. Senator Harr. [LB337]

SENATOR HARR: Thank you. And let me tell you why I like this bill. [LB337]

BRIAN GUBBELS: Okay. [LB337]

SENATOR HARR: I like this bill because I get credit for tax cuts and they don't have to affect spending until I'm long out of office. So, you know... [LB337]

BRIAN GUBBELS: And that was probably strategic as well. [LB337]

SENATOR HARR: So that's why Senator Smith and I are happy with it. Well, the majority of this one, two, three, four, five of us are senior, so there you go, in our last two years. You said this will attract people we don't know about to this state. If we don't know about them, how do we know it will attract them? [LB337]

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BRIAN GUBBELS: Sure. Well, again, I think that let's talk about who does this affect. When you're talking about income tax reduction, you're talking about the top, you're talking about business owners and top employees in the company, right? So businesses are going to look at the overall package. And when you came back to the state of Nebraska, for example, you knew people here. You had the resources here. You had connections here. It was...it made more sense for you. I agree with you. For me as well, it didn't make...really, tax burden didn't really move the dice. But how many people followed you from Chicago, how many people followed me from Atlanta when I lived out there? So those are the concerns I have, and really again, it's about the thinking. If you're just going to continue to attack the business owners as a way to get easy money because they're in the minority. They're only...we'd have income taxes that are paid by about 10 percent of the population, that's an easy minority to go after. We don't have time to be here waiting in line every time to give our thoughts. So we don't get paid by the government, we can't sit here and do that. So I think that my concern is the thinking is ultimately going to be, and this is a long-term game, this is not about, Senator Harr, what we can do right now. [LB337]

SENATOR HARR: And let me tell you, I know about attacking minorities, especially today. But...and I get what you're saying, but this is...I don't think a 6.84 is attacking minorities or 5.99 is saying, well, now we've let up and we're no longer attacking business owners. [LB337]

BRIAN GUBBELS: Sure. [LB337]

SENATOR HARR: This is something more fundamental about what is our tax policy in this state, how do we balance between property tax, income tax, sales tax, even fees, right? We collect fees. I was negligent earlier, I didn't ask what percentage of our total revenue comes from fees. I don't know the answer. It's about how do we grow Nebraska and how do we create what is fair. You know, I can tell you what I think is fair, and that is that Wyoming pays my taxes, right? There's a reason they don't have income taxes, because they export coal. You look at the zero interest or zero income tax states, whether it's Florida, Texas, South Dakota, Wyoming, chances are they're probably exporting something out of there or they have tourism where they send their tax dollars. People come in, tourism pays it, coal, oil, you name it. We aren't blessed with that here. You know, we have wind and we have solar and maybe one day we'll learn how to develop those without upsetting everyone. But we don't have that, so we have to figure out today. And I don't want you to come away with the idea that if we don't pass this or if we do that we think is the ultimate, we're done, right? It's going to be shifting. [LB337]

BRIAN GUBBELS: Sure. [LB337]

SENATOR HARR: And a couple of years ago I asked a guy from the Tax Foundation, I said, what's your model? And he said, we don't have a model tax code. I said, why not? He said,

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because you base your tax code based on the type of business and economy you want to have in your state. So the tax model of Florida is different than New York City, is different than California, different than Nebraska. [LB337]

BRIAN GUBBELS: Right. [LB337]

SENATOR HARR: And so we're up here trying to figure out what is the best tax code to incentivize the type of businesses we want here in Nebraska. [LB337]

BRIAN GUBBELS: Yeah. [LB337]

SENATOR HARR: We are an ag state. We have to support our brothers and sisters in ag. I come from the smallest, most urban district in the state, but I realize we have to support them. And they're carrying a heavy burden right now and we got to find a way to incentivize that and to help them. And vice versa, I want to help our small businesses and I want to help our big businesses. And I want to help you and I want to help me and I want to help the man behind the tree. The question is how do we do that. And so that's what I'm looking for. [LB337]

BRIAN GUBBELS: Yeah. [LB337]

SENATOR HARR: And I don't want you to think that we're attacking minorities, we're attacking big businesses. We're not. [LB337]

BRIAN GUBBELS: Yeah. No, and I hear you talking. [LB337]

SENATOR HARR: Okay. [LB337]

BRIAN GUBBELS: I really appreciate and I'm in agreement with everything you're saying there. I think that we have two other real competitive advantages. I think we have location in the United States and, two, we have a culture. We have a difference of people here that is different. And I think those are really two big things that help us. So again, I think that this bill is really more about I want to hold back the tide from just continuing to go after income taxes, because if you look at the evolution of income taxes since, what, 1967, going from zero, it continues to rise. And it continues to rise only in the top portion of that income tax level. And I'm down here as one of several business owners. I'm a member of a hundred-person...the largest entrepreneur chapter in the world is in Omaha. And I just want to have a voice and tell you that, you know, listen, you can keep attacking us but we're not coming out here. You'll just move things in a different direction and I'm fearful of that. So I agree with most everything... [LB337]

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SENATOR SMITH: Thank you, Mr. Gubbels. We're going to... [LB337]

SENATOR GROENE: I have a question. [LB337]

SENATOR SMITH: Senator Groene. [LB337]

SENATOR GROENE: Just a quick one. Been sitting here thinking a little too much. You're the small business part of the Chamber? [LB337]

BRIAN GUBBELS: Yeah. [LB337]

SENATOR GROENE: So do you have some small businesses that you see potential they could turn into a Cabela's or a Gallup right now? [LB337]

BRIAN GUBBELS: Yeah, sure do. And so again, the headwinds we have are taxes and low unemployment. I think the low unemployment is an issue because of the taxes. I think they're related. [LB337]

SENATOR GROENE: But isn't that what's made Nebraska's economy so great, we've had the local people, the Cabela's family, ConAgra started here? [LB337]

BRIAN GUBBELS: Right. [LB337]

SENATOR GROENE: But I notice as these families and the loyalty goes away, the families pass away, the founders, the loyalty to Nebraska. [LB337]

BRIAN GUBBELS: Right. [LB337]

SENATOR GROENE: What holds them here is their loyalty to Nebraska, so what's going to happen to Gallup, Kiewit, Buffett, Tenaska when it moves into we're hiring a guy from Chicago to run it? [LB337]

BRIAN GUBBELS: Yeah. [LB337]

SENATOR GROENE: I mean, are these companies staying here because they're loyal and they're willing to pay the tax? Is the next generation... [LB337]

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BRIAN GUBBELS: Well, I'm a small business and, Senator Groene, I think you and I line up in a lot of thinking on that. I happen to have a small business based in Omaha and in North Platte and so I'm a boot-strapper. And, yeah, you know, I want to make sure the level playing field is for us kind of crazy start-up guys. And so how you balance that between constantly just wanting to tip the scale to, hey, this is a thousand-person employer, let's go after them, it's an easy swing, versus, hey, there's 50 companies that all employ 20 people. [LB337]

SENATOR GROENE: But my point is... [LB337]

BRIAN GUBBELS: Yeah, go ahead. [LB337]

SENATOR GROENE: ...are these companies staying here because the founders were loyal to Nebraska and when they're gone, like the Cabela's, to stay and keep that company loyal in Nebraska then that tax rate really kicks in as a decision if they stay here or not? [LB337]

BRIAN GUBBELS: Sure. Yeah, right. If we have fewer taxpayers, we have increased taxes and then we accelerate the death of our economy. [LB337]

SENATOR GROENE: Yeah. That would give the Governor, the Ricketts family, and they lose TD Ameritrade control. [LB337]

BRIAN GUBBELS: Yeah, and again... [LB337]

SENATOR GROENE: Why stay here, why the loyalty? [LB337]

BRIAN GUBBELS: Yeah. [LB337]

SENATOR GROENE: Because we're entrepreneurs in our blood we start companies here, but what keeps us here is the loyalty, not the tax rate. [LB337]

BRIAN GUBBELS: Yeah. Well, and again, I think that the other thing is let's keep attracting people once they understand that there is something secret here that is good about our culture and our location and our black dirt. [LB337]

SENATOR GROENE: Another guy from Chicago took ConAgra to Chicago because he thought it was nice there; that's where he grew up. [LB337]

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BRIAN GUBBELS: Right. [LB337]

SENATOR GROENE: All right, thank you. [LB337]

BRIAN GUBBELS: Thank you. [LB337]

SENATOR SMITH: Thank you, Senator Groene. Thank you, Mr. Gubbels. Let's take one more proponent before we move over to opponents. One last proponent. Welcome. [LB337]

NICOLE FOX: Good afternoon. I apologize. Jim really felt strongly he wanted to make sure that the Platte's voice was heard, so I'm going to be presenting his testimony in his place and getting him back to Omaha safely. He definitely is not feeling well. So again, good afternoon. Members of the Revenue Committee, I'm Nicole Fox, N-i-c-o-l-e, and I am director of government relations for the Platte Institute. Individuals, families, and small businesses that earn solidly middle-class income are running up against Nebraska's top personal income tax rate. LB337 would help rein in this burden. Right now, every new dollar these Nebraskans earn in our state cost them about 7 cents. And this does not include federal taxes. This tax rate has not changed for the better in the last 20 years, during which time other states with lower taxes have enticed Nebraska's families, retirees, and small businesses to relocate. IRS records show since 1992 a net total of over \$3 billion in annual adjusted gross income has left Nebraska, the majority of which found its way to states such as Texas, Florida, Arizona, Colorado, and Missouri, which all levy lower top personal income tax rates or none at all. Census data published in the Omaha World-Herald show most of these states lead the country for gaining college educated residents on the whole, while Nebraska was among the ten worst states for losing these residents in 2015. Four out of five also experienced faster population growth and created more new jobs than Nebraska over the last decade. Independent experts from the Tax Foundation to the Small Business and Entrepreneurship Council have written about low marginal tax rates factor into this problem. Approximately 90 percent of the income taxes paid in Nebraska are from taxpayers paying this top rate, which includes our small businesses. We can't attract more people and income to Nebraska by having policies that are hostile to people earning income. On average Nebraskans pay 52 percent more personal income tax per person than the average of residents in Texas, Florida, Arizona, Colorado, and Iowa. Of those states, only Iowa currently has a higher tax rate and they are pursuing reforms as we speak. Our neighbors in Missouri have also recently enacted a bill like LB337 to reduce their top rate to 5.5 percent. Nebraskans are tired of alarmism guiding the tax reform discussion. We're going to hear many nightmare scenarios today that LB337 completely preempts. LB337 may be one of the most frugally structured income tax reductions in history. It promises Nebraska's taxpayers that tax relief is coming, but only in years when the state has sufficient revenue to do so. If someone doesn't pay into the top bracket today, then they are already benefiting from lower tax rates. But incomes change over time. A young person

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making minimum wage today can be making \$70,000 in a few short years. And the tax rates we level upon the work, investment, and entrepreneurship that create those higher paying jobs will determine for many if they find those opportunities here in Nebraska or in Texas or in some other state. LB337 makes a very important commitment to the people of this state that in time taxes on hard work in Nebraska will be going down, not up. And for a place that has often been labeled the tax me state, that would be an extraordinary accomplishment. Thank you and if you have any questions I'd be happy to answer them. [LB337]

SENATOR SMITH: Thank you, Ms. Fox, for your testimony. Senator Harr. [LB337]

SENATOR HARR: Thank you. And thank you, Ms. Fox. You were a senator here last year, were you not? [LB337]

NICOLE FOX: Yes, I was. [LB337]

SENATOR HARR: Okay. And you remember Speaker Hadley? [LB337]

NICOLE FOX: Yes, I do. [LB337]

SENATOR HARR: Do you remember the Hadley list? [LB337]

NICOLE FOX: No, I don't. [LB337]

SENATOR HARR: Okay. That was a list of all the tax cuts that we had done in the last ten years. And it came up to, I want to say, close to \$600 million in tax cuts that we had--and that was on their initial fiscal notes--that we had done over the last ten years. So maybe we didn't lower the rates, but we've done tax cuts. Among them, and the one I'm probably most proud of, is that we adjust our brackets, index them to inflation. And that's been a tax cut that helped everybody, because with each year it helps bring it up for everyone. It doesn't just go to a certain quartile. And I asked this question earlier and maybe you know the answer: Do you know what percentage of this tax cut of the fiscal note would go to the top quartile, 25 percent? [LB337]

NICOLE FOX: Thank you, Senator Harr for your question. No, I do not know that answer. But since you asked me about my time as a former state senator, I would just like to say that in my time as a state senator and I think in all of our times everyone here on the committee, we've talked to constituents, we've walked our districts. And people are begging for tax relief. As a state senator I represented the third poorest district in our state. And I promised that I would do

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anything I could to stand up for the working class person so that they could take as much of their paycheck home as possible. And that's what this hearing today is about. [LB337]

SENATOR HARR: Right. And so that's what I'm trying to do is help the working class guy. [LB337]

SENATOR FOX: Uh-huh, 90 percent. [LB337]

SENATOR HARR: You and I see eye to eye on that. [LB337]

NICOLE FOX: Ninety percent. [LB337]

SENATOR HARR: So that's what I'm trying to figure out. Do you consider...let's just do this then. Do you consider the top 10 percent working class people? [LB337]

NICOLE FOX: Do I consider the top 10 percent? [LB337]

SENATOR HARR: Ten percent of income working class people. [LB337]

NICOLE FOX: I think all hardworking Nebraskans deserve a tax break. [LB337]

SENATOR HARR: Okay. Well, do you think taxes should be based on ability to pay? [LB337]

NICOLE FOX: No. [LB337]

SENATOR HARR: Okay. Thank you. [LB337]

SENATOR SMITH: Thank you, Ms. Fox. And we hope that Mr. Vokal feels better. All right, we are now moving to opponents of LB337. Opponents. Welcome, Ms. Fry. [LB337]

RENEE FRY: (Exhibits 6, 7, and 8) Thank you. Good afternoon, Chairman Smith 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. We want to start by saying we are not a high-tax state. We rank close to the middle on most taxes. The Tax Foundation ranks us 30th in state and local taxes, 1st being the highest. We're greatly concerned about the automatic nature of this proposal, and believe that Oklahoma serves as a cautionary tale of what happens when states use these mechanisms and put

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tax cuts on autopilot. In 2016, a revenue trigger sparked an income tax cut in Oklahoma just as oil prices plummeted. Lawmakers were unable to stop the tax cut, which was passed years earlier based on arbitrary thresholds for state revenues, much like LB337. The resulting revenue losses contributed to a state budget crisis that has caused nearly one-third of Oklahoma school districts to move to four-day school weeks to save money. A similar scenario would have played out here if the triggers proposed in the Legislature had been in place since 2001. In that span, several tax cuts would have been implemented, including one during the recession of the early 2000s, one during the Great Recession, and another in 2016 that would have significantly exacerbated Nebraska's current budgetary issues. In each of these instances, the tax cut would have been triggered based on projected revenue growth, despite the fact that actual revenues came in below projections. In fact, a tax cut would have been triggered in 2008 based on projected growth of 3.8 percent, even though actual revenue growth was negative in both 2008 and 2009. These tax cuts would have compounded cuts to education, public safety, and other vital services. We are also concerned that these income tax cuts would offer large tax savings for the wealthiest Nebraskans but provide little to no tax cuts for middle-class residents. According to an analysis by the Institute on Taxation and Economic Policy, once fully implemented, a Nebraskan in the top 1 percent of incomes would receive an average tax cut of about \$5,810 a year after the federal offset; a middle-income earner would receive about \$39 average annually; and the lowest earning taxpayer would, on average, receive no tax cut. About 86 percent of LB337's tax cut would go to the highest earning 20 percent of Nebraskans with annual incomes greater than \$95,000. Furthermore, about 33 percent of the tax cut would go to the wealthiest 1 percent of Nebraskans, who on average earn about \$1.6 million annually. Furthermore, about 25 percent of the total income tax cuts would leave Nebraska. I can discuss this further if you have questions. Some suggest LB337 and other measures to cut income taxes would improve economic growth. Dr. Ken Kriz from Wichita State is here to testify in a neutral capacity today and can touch on his research in this area. Furthermore, LB337 would do little to help small businesses. Eighty-six percent of small businesses make less than \$50,000 in total income, and the average small business subject to the individual income tax has \$27,484 in taxable income. Such a business would not receive a tax cut under LB337. The revenue losses created by LB337 would, however, impede Nebraska's ability to invest in real economy builders like schools, public safety, and infrastructure, and would also prevent Nebraska from taking real steps to address our high reliance on property taxes to fund schools and other vital services. I would mention that Governing magazine has indicated that this tax cut proposal is the most aggressive tax cutting measure in the nation. And when I present to groups they are shocked that we are even talking about tax cuts when we have \$1.2 billion shortfall. For these reasons we would urge you to reject LB337. Thank you for your time. I'd be happy to answer questions. [LB337]

SENATOR SMITH: Thank you, Ms. Fry. Senator Lindstrom. [LB337]

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SENATOR LINDSTROM: Thank you, Chairman. In your opening statement, you said we rank 30th and that we're not a high-tax state. [LB337]

RENEE FRY: Correct. [LB337]

SENATOR LINDSTROM: And being 30... [LB337]

RENEE FRY: First being the highest, highest taxes. [LB337]

SENATOR LINDSTROM: Yeah. And so basically we're in the middle, right,... [LB337]

RENEE FRY: Right. Uh-huh. [LB337]

SENATOR LINDSTROM: ...for all intents and purposes? [LB337]

RENEE FRY: Yes. [LB337]

SENATOR LINDSTROM: And that's okay, being mediocre? [LB337]

RENEE FRY: I don't think that that's mediocre. [LB337]

SENATOR LINDSTROM: Being in the middle of 50, thereabouts, is not? You don't think we can do better? [LB337]

RENEE FRY: There is no evidence that having lower tax rates improves economic growth. So the trade-off is one of cutting schools, cutting roads, cutting services that Nebraskans care about. We don't have great weather. We don't have tourism. And so we need to raise those tax dollars within the state. We also don't receive as much federal funding as other states and so...we're actually, when you look at our spending as a state, we rank in the bottom third, even though our taxes are in the middle. So there are trade-offs for sure. And as someone who has a fifth grader in public schools, I'd really like to see us protect our public education. It's one of those... [LB337]

SENATOR LINDSTROM: Okay, thank you. But this is talking about income tax. And also just to point out, you said in this budget this bill does not kick in till 2020, so it's a little different time frame here. But thank you for your... [LB337]

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RENEE FRY: But, yeah, had it been in place... [LB337]

SENATOR LINDSTROM: Thank you. Thanks. [LB337]

SENATOR SMITH: Senator Friesen. [LB337]

SENATOR FRIESEN: Thank you, Chairman Smith. I have a question on the chart here. I mean, you have like Oregon. They're a high-tax state but they're growing pretty rapidly. What do you attribute that growth to then? What do the high-tax states that are growing...what do you attribute that growth to? [LB337]

RENEE FRY: People want to move there for jobs, for weather, for...quite frankly, I've been to Oregon recently and it's booming. A lot of the reason is cultural. Young people really want to move and live in Portland, Oregon. There's a lot to do. There may be... [LB337]

SENATOR FRIESEN: Is there any one thing you could say, though, that helps drive that? I mean, the weather in Vermont, they're growing, New York. Can't tie it to any one thing, really? Is it just... [LB337]

RENEE FRY: You know, Dr. Kriz may be able to speak to this better than I can, but I think that there are different reasons that people move. People move for weather, for jobs, to be near family. And you can see from the chart, though, that there's not...you have high income tax states that have high economic growth and have really, really strong economies. And there isn't a clear correlation between whether you have no income tax or a high income tax and economic growth. And that's the point I'm trying to make with this chart is there is not a clear correlation. I think there are a lot of different reasons people move. There are reasons that ConAgra moved to Chicago, even though Illinois is a higher tax state. And so I don't think you can isolate any one component. But I think for young people a lot of it's cultural. [LB337]

SENATOR FRIESEN: Okay. Thank you. [LB337]

SENATOR SMITH: I see no further questions. Thank you. [LB337]

SENATOR HARR: I have one. [LB337]

SENATOR SMITH: Oh, I'm sorry. Senator Harr. [LB337]

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SENATOR HARR: Thank you. Do you know what our effective rate is in Nebraska? [LB337]

RENEE FRY: I do. Yes. So for the top 10 percent the effective tax rate, according to the Department of Revenue, is 5.04 percent; for the top 500 it was 4.62 (percent). [LB337]

SENATOR HARR: Okay. I am looking at a Web site. I will fully concede it's a Web site. But I think it's a pretty good Web site because I know our Governor sitting here quoted it last year in his State of the State Address--it's WalletHub--and it has our top tax rate at 2 point...or not our top but our effective income tax rate at 2.53 percent. Would you disagree with that or would you have any reason to know if that's correct or not? Again, I pulled it off the Internet. [LB337]

RENEE FRY: Right. So looking at the Department of Revenue Tax Burden Study, for the first seven deciles the effective tax rate was 1.74 percent, so that would be the 70 percent of Nebraska earners. And then it goes to 3.16 percent for the eighth decile; 3.81 percent for the ninth decile; and 5.04 percent for the tenth decile. So certainly I'm not exactly sure where they're getting that number from. It may be a...maybe they're averaging the different deciles. We have no... [LB337]

SENATOR HARR: Nor do I. I would probably go off the Nebraska Tax Burden Study done by the Nebraska Department of Revenue as well though. Thank you. [LB337]

SENATOR SMITH: Thank you, Ms. Fry. [LB337]

RENEE FRY: Thank you. [LB337]

SENATOR SMITH: Next opponent. Welcome. [LB337]

JASON HAYES: (Exhibit 9) Good afternoon, Chairman Smith and members of the Revenue Committee. My name is Jason Hayes, J-a-s-o-n H-a-y-e-s, and I represent the Nebraska State Education Association. The association is opposed to both LB337 and LB338. I will provide comments on each, because we are concerned about how both bills together would impact the state's ability to finance state aid to education. I include with my testimony a chart showing the ten-year history of TEEOSA. The blue bars represent TEEOSA funding required by then-existing law and the red bars show the actual amount appropriated each year after the law was modified during each session. The final black bar on the right shows the amount proposed by the Governor in his current budget. You can see that from 2010 to 2016 state aid to education has increased by just \$29 million. If one were to calculate the difference between what the law required, as shown in the blue bars, and what was appropriated, shown in the red bars, there is an aggregate deficit funding amount of about \$814 million over the entire period shown on the

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chart. Now about LB337. If the law had been adopted in 2001, income tax cuts would have been triggered in the fiscal years beginning in 2008, 2012, and 2016. You'll see in the TEEOSA chart that state aid was underfunded in both 2008 and 2012 and was held at a zero growth level in 2016. NSEA is concerned that the state already has difficulty in meeting the annual legal funding requirements of TEEOSA. If LB337 is adopted it will put further pressure upon the Legislature to meet these funding requirements. And as you know, Nebraska consistently ranks 49th in the nation in terms of state aid to K-12 education. Now briefly in reference to LB338, the bill addresses agricultural property valuation and would mostly affect local property tax revenues of rural school districts. If LB338 had been in place last year it would have triggered an additional \$23 million increase in TEEOSA this year. Also, under the budget proposed this year by Governor Ricketts, state aid is already projected to decrease by \$31 million from what current law mandates. The bottom line is this: If LB337 and LB338 had been adopted in previous years, then today you would be trying to resolve a much larger budget deficit than the roughly \$800 million budget gap now before you. Currently, there are many concerns regarding the current imbalance in the state's tax system. NSEA requests whatever changes are made, that such changes take into account the state's ability to meet its obligations under the state aid formula. And I thank you for your time and I'm welcome to take any questions. [LB337]

SENATOR SMITH: Thank you, Mr. Hayes. Senator Brasch. [LB337]

SENATOR BRASCH: Thank you, Chairman Smith. And thank you, Mr. Hayes. I understand you're an opponent here, but has the NSEA ever come as a proponent of any tax cuts? [LB337]

JASON HAYES: I'll be coming as a proponent this Friday for the Social Security tax cut. [LB337]

SENATOR BRASCH: Okay, that answered my question. My next question also is, as we look at how the intent on lowering income tax, because I do believe income and property tax both affect each other, and we need each other for economic health and growth. And do you recognize that the increase for TEEOSA--which is needs and resources--that when you look at the districts that will need the TEEOSA formula, they will get more aid. So the schools that may need the money, we have increased or we're proposing an increase to TEEOSA. We're also proposing an increase for special education. So I think that the schools...that these bills are very well thought out for needs and resources and not leaving the education community behind. [LB337]

JASON HAYES: Well, and I don't want to get too much into LB338 because that will come up in the next round. But at least from the numbers that I've seen on it, there may be cuts to local rural school districts of about \$84 million, but TEEOSA would only make up for about 22.2 percent of

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that. So I guess if it was designed in a way that would make up for some of the shifts in LB338 that perhaps we would be open to that. [LB337]

SENATOR BRASCH: Very good. I have no other questions. Thank you. [LB337]

SENATOR SMITH: Thank you, Mr. Hayes. [LB337]

JASON HAYES: Thank you very much. [LB337]

SENATOR SMITH: Next opponent of LB337. Welcome. [LB337]

MARK FAHLESON: (Exhibit 10) Good afternoon, Mr. Chairman, members of the committee. My name is Mark Fahleson, F-a-h-l-e-s-o-n, my principal place of business is 1128 Lincoln Mall, Suite 300, Lincoln, NE 68508. I appear today in my capacity as the chairman of Reform For Nebraska's Future. Reform For Nebraska's Future is a volunteer-driven, grass-roots coalition representing Nebraskans from across our great state who believe that Nebraska's tax structure must be reformed. That reform must fix inequities that have led to excessive property taxes on Nebraska's families and businesses, while threatening the stability of funding for education and other Nebraska priorities. Nebraska property owners have seen a 60 percent increase in property taxes over the past decade, according to data from the Nebraska Department of Revenue. In addition to these increases, Nebraska pays the seventh highest property taxes in the country, higher than all of our neighboring states. This cannot continue. We believe that a more balanced system will provide more reliable revenue generation to meet the state's priorities while also ensuring that everyone pays their fair share. Despite the fact that our group is less than two months old, we have over 13,000 petitions that had been signed in support of our priorities and have over 10,000 likes on Facebook page. We appear here today in opposition to LB337. Why are we opposed? It's quite simple. Nebraskans want meaningful property tax reform first. Our recent poll, which is available on our Web site at www.ReformForNebraskasFuture.com, shows that 77 percent of Nebraskans support property tax reform; 62 percent of Nebraskans believe that property tax reform must be the priority, while only 14 percent say the same about income taxes. LB337, which only addresses income taxes, is unfortunately the dog barking up the wrong tree. The fact that Nebraskans are demanding real property tax reform is not a surprise to anyone in this room. In fact, it's not a surprise to anyone in the State Capitol, because many of our elected officials ran as candidates promising property tax relief. Unfortunately, there's a malady that sometimes exists in this building, not unlike Potomac Fever in Washington, D.C. Unfortunately, for Nebraska it's property tax amnesia. Far too many of our elected officials went to the voters as candidates promising property tax reform only to forget what the majority of Nebraskans were demanding once they entered this hallowed building. Reform For Nebraska's Future wants to work with this committee to find a cure to property tax amnesia. Our grass-roots coalition will

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support a cure that meets the following principles: one, that Nebraska's three-legged stool of taxes--that sales, that's income, property--becomes largely balanced; two, tax reform should be revenue neutral, meaning we will only support measures that, when considered collectively, do not increase the total amount of revenue raised from taxes in the state of Nebraska; finally, property tax reform is necessary to provide a stable funding source for Nebraska's future. In closing, Reform For Nebraska's Future represents the majority of Nebraska business owners, homeowners, renters, farmers and ranchers who believe that property tax reform, not income tax reform, must be the priority of the One Hundred Fifth Legislature. Thank you for your time and I apologize for going over. [LB337]

SENATOR SMITH: Thank you, Mr. Fahleson. Do we have questions for Mr. Fahleson? I see none. Thank you. [LB337]

MARK FAHLESON: Thank you. [LB337]

SENATOR SMITH: Next opponent. Welcome. [LB337]

JOHN HANSEN: (Exhibit 11) Mr. Chairman, members of the Revenue Committee, good afternoon. For the record, my name is John Hansen, J-o-h-n, Hansen, H-a-n-s-e-n. I'm the president of Nebraska Farmers Union. I appear before you today in opposition to LB337. The number one issue in my organization and all other ag organizations is to deal with the ongoing, unsolved problem of altogether too much reliance on property taxes to pay for the state's obligation relative to K-12 funding. And that doesn't mean that we're against education. That means that there is a limit to how much taxes we can afford to pay, especially when we're looking at a situation where we're facing the third year in a row of below-cost-of-production levels. I'm offering the committee today the special order of business, which was front and center at our recent state convention. It was the first special order of business that came from our policy committee and our delegates. It is a good description of what goes on and it points out the history. And so in the interest of time I would just remind the committee that we have data. We have done studies. In the last 27 years, I've been a part of a lot of them. Going back to the Syracuse study, every single study that we have ever done of taxes in the state of Nebraska says that we have altogether too much reliance on property taxes. And that agriculture, being the owner that we are, is the primary victim of that kind of system. We do not pass our cost of doing business on. We are at a competitive disadvantage. And if you look at the different revenue streams, when you tie into revenue you tie into revenue after the investment has been made. You tie into it after the work has been done. And at the end of the day you have a profit. And if you are making money you can afford to pay taxes. Sales tax, you can actually decide whether you can afford to buy certain items or not, based on whether or not you have the income to do it and based on the sales tax liability you incur. In the case of property, that is the means of production

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for agriculture. We pay those taxes whether we raise a crop, whether we don't. We pay those taxes whether we have made a dime or not or whether we have lost thousands and thousands of dollars. So when you look at the data from the 2015 Nebraska Farm Business Records Association, if you're a 1,000-acre farm and you've got 500 acres of corn and 500 acres of soybeans and you're a cash renter, you just lost \$110,000 and your taxes went up and your property taxes went up. LB337 is a step backwards in the state's commitment to help fix our state's property tax intensive problem. With that, I would end my testimony and answer any questions if you have any. [LB337]

SENATOR SMITH: Thank you, Mr. Hansen. Senator Harr. [LB337]

SENATOR HARR: Thank you for coming, Mr. Hansen. And you and I will have a little conversation about property tax policy, because I'm still trying to figure it out what my policy is on property taxes, I don't know...as I am with income. That's why I'm here to listen today. But I will say, when you mention property taxes and you pay whether you have a good year or a bad year, it reminded me of a scene from Goodfellas. I don't know if you've seen the movie, but there's a scene where they describe how the mob works. They say, you have a great year, great, pay us. If you lost money, too bad--might have used a different word than "too bad"--pay us. So I understand your frustration. I'm just trying to figure out what we should be doing. And just quickly, I see there are three different types of income. I see income from your labor, which I think farmers do. I also see income from your land, which is also part of farming, right, if you own your land, if you're not renting it. And then...so I see income from property and then income of property, which is maybe if you're lucky money you inherit, land you inherit and/or something to that degree. It's passive income. And I'm trying to figure out how do we properly tax those three types of income to make sure that everyone pays their fair share. And if someone has the answer, I am all ears and will be listening. [LB337]

JOHN HANSEN: It is a matter of mix and how much of what comes from where. And in the case of property, that's where the rub is. When I started farming I sold all of my corn in 1973 for \$3.30 a bushel. [LB337]

SENATOR HARR: Okay. [LB337]

JOHN HANSEN: The corn price in Newman Grove today is \$3.30 a bushel. But look at what's happened to my cost of production and my taxes. And I'm still paying my taxes with \$3.30 corn. [LB337]

SENATOR HARR: But you're getting a heck of a lot more (inaudible)... [LB337]

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JOHN HANSEN: Not that much more. [LB337]

SENATOR HARR: Well, I got some ideas for you. [LB337]

JOHN HANSEN: No, it is not. The additional income and productivity does not offset the cost. And so the cost today to put in a crop is so large, and as large as that is, the number two item for most farmers in their cost of production is now their taxes. [LB337]

SENATOR HARR: Over fertilizer? [LB337]

JOHN HANSEN: Seed would probably be first, property taxes probably be second, and then fertilizer. But property taxes are just running off with the cost. So it's not just K-12 education; it's all of those other governmental entities. You've been around seven years, so you're an old-timer. I've been around 28 years. And I remember what happened the last time we had a major economic meltdown in the state. We cut all of the aid to local governmental subdivisions and then we said when things get better we'll replace all that. We were just kidding. We didn't do that. So all of those property tax bills for all those other entities also add up. [LB337]

SENATOR HARR: Okay. And we'll talk more later when you come back for property taxes. [LB337]

JOHN HANSEN: Oh, I would love to. [LB337]

SENATOR HARR: All right. Thank you. [LB337]

JOHN HANSEN: It's my favorite topic in the world. [LB337]

SENATOR SMITH: Senator Brasch. [LB337]

SENATOR BRASCH: Thank you, Mr. Hansen. And I understand and I feel rural Nebraska is feeling pain, truly, from taxation. But we also pay income tax. So are you saying your organization objects to lowering any income tax? When I speak to our area, they would like to see both. I mean, there is a problem in the way we are taxing. And maybe I didn't hear those words, but I wanted to make sure that...we love our main street businesses. It's sad in Bancroft. The flower shop closed, two cafes have closed, we're hanging onto a couple of places you can eat if they're open at night, and that's the bar. So we love our businesses, too. We're struggling to keep the farms going, but we also have the ear of those on main street that we lean on. And so

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I'm hoping that Farmers Union and whoever else in the ag community can see that this bill looks at when times are good...it's building in some safety nets. And this is where I can support and I'll introduce, of course, my next bill in support with my whole heart. But income tax does matter and it matters to rural Nebraska as well. [LB337]

JOHN HANSEN: We agree, but the time to tie into the revenue stream is when there is a revenue stream. And the problem with property taxes is there's not necessarily a profit being made and yet the tax is...and that's the strength, but it's also the weakness of property. From a big picture economic development picture we're having a discussion today about how do we move our state forward. And agriculture is, if you look at it, a manufacturer. We use sunlight and soil and water and we manufacture a new product every year. We are the source of new wealth. And we are different than service industries that reflect economic activity. We're a primary driver and creator of new wealth. And my point is that we are in the worst financial shape that we have been in since the mid-1980s and all of the data says that. The banking regulations are: You're current or you're gone today. So even if you have equity, you can't fall back on equity as we did in the mid-'80s when young guys like me borrowed money for a living. And so we don't have that forbearance. So we are at crisis point. If the state of Nebraska didn't have it in their heart to help deal with the property tax crisis when we had \$7 corn, because farmers had plenty of money so we didn't need to worry, the reverse ought to be the case. And so when the corn is well below the cost of production we ought to be stepping up and trying to figure out what we can do. [LB337]

SENATOR BRASCH: And please believe me, I do not diminish the property tax crisis. But I also see a need that we must grow this state. Now our taxes have risen disproportionately to our population. And so what can we do? I think we need to look at the whole picture, but we can't turn a blind eye to property tax. [LB337]

JOHN HANSEN: No, but we do have to prioritize. And of all the different sources of tax that we have that are...property taxpayers would love to be in the middle of the pack, Senator Lindstrom. That would be a far cry better than where we're at now. And so of all the things that are out whack, the fire that burns the hottest is the property tax fire. And that's the one that ought to get the most water. [LB337]

SENATOR BRASCH: Thank you. I do appreciate your work and your testimony. [LB337]

JOHN HANSEN: Thank you so very much. And as I suggested to the Education Committee Monday, having done this for a long time, I really smile and I really mean it when I say, good luck. [LB337]

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SENATOR SMITH: Thank you, Mr. Hansen. Let's take about two more opponents on LB337. Welcome. [LB337]

KEITH NELSON: (Exhibit 12) Chairman Smith and members of the Revenue Committee, I am Pastor Keith Nelson, K-e-i-t-h, Nelson, N-e-l-s-o-n, from Augustana Lutheran Church in Omaha, a member of Omaha Together One Community, where we have been asked to present a compelling, moral framework that informs us as to why LB337 must be defeated by this committee and the Nebraska State Legislature. Jesus appreciated business owners, landowners, and wealth managers, but he expected them to share their money with a broader community, not as little as possible but with reference to their accountability before God. To whom much is given, so also shall much be required. Wealth and talent are gifts from God. We are not owners but stewards of this world. Nebraska has a proud history of philanthropists who have given generously, not only through direct charitable giving but also by paying of their fair share of taxes for the common good. They recognize that nonprofits and churches will never have the resources to support universal education, healthcare, and the infrastructure we all rely on. It stretches credulity that business leaders who have selflessly contributed literally billions of dollars to charitable causes might actually leave Nebraska if they have to pay a few hundred or a few thousand extra dollars in taxes, especially if they know their money is fulfilling the fundamental moral criteria for all governmental economic policies: that tax dollars be used in the service of all people, especially the poor, by going to educate our youth, tend to our sick and elderly, and build community resources. We all know that, like many prophets before him, Jesus heaped scorn on those who failed to support the less fortunate. Jesus recognized that poverty is not a result of laziness, but it is the scourge of every economy. No matter how hard they work, every team in the NFL will not win the Super Bowl. It is right that winners take home prizes. But in the NFL all players are protected by a union. Owners share their revenue and the burden of promoting and developing the entire league. Each year the team with the worst record is given a hand up by getting the first pick of the best new players. I'm not saying that the NFL is God's own country, but with proper legislation Nebraska might come close. Thank you for your time. And I am welcoming any questions. [LB337]

SENATOR SMITH: Thank you very much for your testimony. Senator Groene. [LB337]

SENATOR GROENE: You mentioned you're from Omaha? You're from Omaha area? [LB337]

KEITH NELSON: I am. [LB337]

SENATOR GROENE: You mentioned public services and education. [LB337]

KEITH NELSON: I did. [LB337]

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SENATOR GROENE: That's paid by mostly property taxes. Have you ever gone to the city council when they had a TIF project? Have you ever gone to the city council in front of Mayor Stothert and said these things when they approved a TIF project, a tax increment financing project? [LB337]

KEITH NELSON: I have not. [LB337]

SENATOR GROENE: You might try that. [LB337]

KEITH NELSON: I would be happy to. [LB337]

SENATOR GROENE: They would love to see how you've got a strong voice,... [LB337]

KEITH NELSON: I'd be happy to. Thank you. [LB337]

SENATOR GROENE: ...because that hurts your streets and your schools more than income tax cuts do, when you examine it, if you've got the numbers. If you ever want to see them stop by my office, I'll show you. [LB337]

KEITH NELSON: Thank you. [LB337]

SENATOR GROENE: All right. Thank you. [LB337]

KEITH NELSON: Thank you very much. [LB337]

SENATOR SMITH: I see no further testimony. Thank you for the question. [LB337]

KEITH NELSON: Thank you for your time and attention. [LB337]

SENATOR SMITH: Thank you for your testimony. All right, this is our last opponent that we're going to take before we move into neutral testimony. Welcome. [LB337]

MARY SPURGEON: (Exhibit 13) Thank you. Thank you. Good afternoon. My name is Mary Spurgeon, M-a-r-y S-p-u-r-g-e-o-n, and I am testifying on behalf of the laity and volunteers of Omaha Together One Community, or OTOC. OTOC is a coalition of congregations and other community organizations that work together for the common good. OTOC finds little about

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LB337 that would enhance the common good. It fails to satisfy OTOC's criteria for taxation: that a tax be necessary, fair, and transparent. LB337 provides for a cut in income taxes. There has been no widespread call to reduce state income taxes. Considering that the state is projected to run a deficit in this year, in the next biennium, and in the foreseeable future, this proposed income tax cut is far from necessary and very unwise. This proposed tax cut is unfair in that it provides no tax relief for the lowest income earners who need it most, little for those in the middle, and great tax relief for the top 1 percent of income earners who don't need it. It reinforces a tax policy that is already imbalanced, disproportionate, and it fails to address property tax concerns. It fails the transparency test because the data used to promote the bill, citing that those who earned \$29,831 would receive the proposed tax cut, is directly false because people who gross that little always take the standard deduction. So no tax cut for them, not \$1. One must gross \$36,181 in order to be subject to the highest rate, and that's on \$1. The accompanying assertion that the middle class has not had a tax cut in 20 years is also belied by the Legislative Fiscal Office, as Senator Harr cited. This bill is a direct assault on the common good. The triggers in the bill are activated on the basis of forecasted growth. The state's current situation demonstrates how unreliable revenue forecasts can be, yet there are no reverse triggers in the bill to provide for an increase in the state's income stream when it's needed. It ties the hands of Unicameral legislators in dealing with future budget shortfalls. It would significantly reduce revenue to the state, harming services that are important to all our citizens. OTOC's constituencies value Nebraska's fine K-12 schools, community colleges, and universities, recognizing them as essential for the continued well-being of the state. They appreciate services that are there to appropriately care for and compassionately support vulnerable children, youth, and families who struggle. Law enforcement, criminal justice, a corrections program that reduces recidivism, and a court system that is funded sufficiently to function without strain are essential to civility and commerce in the state. Agencies that monitor the purity of the air we breathe and the water we drink are as important as the roads and highways that traverse our state. These are just some of the necessary and essential functions of Nebraska's government. As long as state agencies are held accountable for being efficient and effective, funding them with taxes that are fair and transparent will be deemed appropriate by OTOC's constituencies. LB337, however, fails the test. For that reason OTOC opposes LB337. [LB337]

SENATOR SMITH: Thank you, Ms. Spurgeon. [LB337]

MARY SPURGEON: Thank you. [LB337]

SENATOR SMITH: Do we have questions? I see none. Thank you for your testimony. [LB337]

(MAN FROM AUDIENCE): Sir. [LB337]

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SENATOR SMITH: All right. [LB337]

(MAN FROM AUDIENCE): Senator Smith. [LB337]

SENATOR SMITH: Yes, sir. [LB337]

(MAN FROM AUDIENCE): May we, the bunch that can't give testimony, give our testimony to the clerk so you all can read it? [LB337]

SENATOR SMITH: Absolutely. Yes. If you'd like to submit that, absolutely. Okay. We're going to move to neutral testimony, those wishing to testify in a neutral capacity. And, again, I'm going to ask that this be neutral testimony. Yes, sir. [LB337]

MAX WALDO: There seems to be confusion, so I'll go. [LB337]

SENATOR SMITH: Welcome. Yes. Take advantage of that and get into that chair. [LB337]

MAX WALDO: Okay. Will do that. Thank you very much for the privilege here of attending and I appreciate the... [LB337]

SENATOR SMITH: Hold on just a moment. We don't want to miss your testimony. We'll let it settle it down here for just a moment. [LB337]

MAX WALDO: Settle down. [LB337]

SENATOR SMITH: Do you have a green sheet? [LB337]

MAX WALDO: I gave it to you over there somewhere. My name is Max Waldo. [LB337]

SENATOR SMITH: Yes, sir. Go ahead. [LB337]

MAX WALDO: (Exhibit 14) Okay. And I'm primarily representing farmers and outstate schools. [LB337]

SENATOR SMITH: Okay, and just spell your name for us, please. [LB337]

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MAX WALDO: Okay. W-a-l-d-o, Waldo. [LB337]

SENATOR SMITH: Okay. [LB337]

MAX WALDO: Okay, thank you. I appreciate the questions that you people have asked thus far. It indicates some wisdom. But you have a tough job here, so good luck. I'll quickly go through some of these things, but I noticed the word "common good" expressed several times. It used to be a very common term around the Legislature. I hope it still is. But tax relief for the high brackets fails to achieve that. But my father, Willard Waldo, a five-term Senator, worked with Governors from Sam McKelvie to Mike Johanns. In the '70s, he and several other fair-minded senators pushed through sales and income tax legislation with intent to utilize about one-third of the funds from each of those three sources. Education was to receive a significant fund from the state. Now that's an odd thought out in outstate. Each ensuing formula departed further from this original objective of fairness. Prior to that critically needed tax reform, the feud between Lincoln, Omaha, and outstate people became so critical that there's people seriously wanting to leave Nebraska and join Wyoming. I think one of the solutions here perhaps is go ahead and raise income tax, but then allow the farmers to transfer their land to Wyoming or South Dakota. Then both of those groups would be happy I think. But it wouldn't leave any money for local schools. But as it is now it has transpired to where Tri County Schools, which I'm a member of, gets basically zero in tax equity payments, as does most of the schools in outstate Nebraska, which is far, far, far from what they had intended in the 1970s. I have not received profits nor pay from our family farm business in two years, but increasingly burdensome property taxes must still be paid. John Hansen eloquently indicated that. If income tax was a flat tax, would salaried people like to pay during years they had no jobs or no income? We have the same situation. Well-intended Southeast Community College promoters overlooked the fact that the average small farm struggles to break even with an investment of \$5 (million) or \$6 million. Livestock producers often have years of significant losses, yet these groups of businesspeople must pay extremely high property taxes. The majority consider income tax to be the best source to run our government. As one wise farmer told me, I look forward to having an income tax problem. I guess we would like to have income tax to pay. I could skip the rest of this. Well, I might...one thing further. Going into more of the philosophical, if you count the number of people in this room and you each would represent the richest people in the world, you would have the wealth equal to about 4 billion people represented from this group here. Now we have a serious problem in wealth distribution worldwide. And yet we're talking here about trying to figure out how to save a few pennies on one tax to shift around. But somehow we have to get some more of a system of fairness. And it's your responsibility to figure that out. The light is red. I will quit at this point. [LB337]

SENATOR SMITH: Thank you, Mr. Waldo, for your testimony. Questions for Mr. Waldo? I see none. Thank you. [LB337]

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MAX WALDO: Thank you. [LB337]

SENATOR SMITH: All right. Next person testifying in a neutral capacity. Welcome. [LB337]

CAROL SHERMAN: (Exhibit 15) Hi. My name is Carol Sherman, C-a-r-o-l S-h-e-r-m-a-n. I'm a landowner and a farmer. We have small farms in Dawson County, Seward County, and Lancaster County, and if that isn't exciting trying to figure out how each one figures out their real estate taxes, you don't know excitement. (Laughter) Anyway, what I'm testifying today about is not on the bill because I don't know which way to go on that, but there needs to be something done to change the unfair and unequal tax burden that now rests on not only the farmers and ranchers but also on small businesspeople in the state of Nebraska. If a person invests money in farming, ranching, manufacturing, or other businesses, real estate tax is assessed every year on the new assessed value, even though that might be based on what real estate has sold for by someone that is greedy and, well, I'm going to bid more than you or I'm going to bid more than you and so we all pay the penalty for that. Anyway, we have to pay that real estate tax even if we don't make a cent in profit on our farming. For example, you've heard some statistics here about the percent of increase in real estate tax. I looked at one of the farms we have and, by the way, we have three farms but it's only 308 acres total so they're small farms. But I looked at one of them and since 2007 the book or the appraised value from the county assessor is 400 percent. The tax rate, the tax that we are assessed is 300 percent increased. That's greatly different than what you heard earlier. I propose to you that you need to look further. How about the person that has money in the bank or money in investments? They...let's say you have a million dollars in real estate; you're paying real estate taxes every year even with...and then you're paying income tax on top of anything you might be fortunate enough to make. The person that has money invested in something someplace else, stocks, bonds, whatever, they pay only on income. They do not pay on the base amount of their investment; the farmer has to. You need to look further. You need to get this equalized so that everyone is paying. Not only that, the real estate is paying for the schools. It should be the homes, only the homes on the farms, the homes in the towns that are paying for the schools. Why should the farm ground that I need to use to try to make a profit be paying for the schools? And I'm not sure what the red light...does that mean that my time is up? (Laughter) [LB337]

SENATOR SMITH: Yes, ma'am. [LB337]

CAROL SHERMAN: Hey, time flies fast when you're having fun. (Laughter) [LB337]

SENATOR SMITH: Thank you, Ms. Sherman, for your testimony. Do we have a question for Ms. Sherman? I see none. Thank you for coming down today and for your testimony. [LB337]

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CAROL SHERMAN: Okay. I would like to make one little statement. [LB337]

SENATOR SMITH: Please. [LB337]

CAROL SHERMAN: On one of the real estate tax for last year took 50 percent of the profit we had. [LB337]

SENATOR SMITH: Next neutral testimony. Welcome. [LB337]

KENNETH KRIZ: (Exhibit 16) Thank you, Chairman Smith and members of the committee. My name is Kenneth Kriz, K-r-i-z. Thank goodness I have a short last name. I'm the Kansas Regents' Distinguished Professor of Public Finance at Wichita State University, where I also direct the Kansas Public Finance Center. I appear today to testify on LB337 as a neutral observer but one with a personal interest. I lived in Omaha for 11 years. My youngest daughter attends Millard North High School. My oldest daughter graduated from there, then she moved to Minnesota to a high-tax state. I want to discuss research I've participated in that sheds light on the effectiveness of tax cuts in stimulating the economy. You've heard a lot of testimony on that. I'm here to provide you with some unbiased information based upon research that I carried out with a colleague that we started when we were at UNO but we eventually published when we were at Wichita State. I also want to correct some misconceptions about what's happened in Kansas that I've heard during the testimony today, having lived the experience. When we started researching the relationship at UNO between the state tax and spending policy and economic growth, we found evidence that basically was mixed. Some studies indicate that there's a small positive effect of tax cuts on economic growth, others say there's zero effect, and some even find a negative effect. Most of them suffer from various similar problems in their statistical modeling. And so we figured out a way--actually it was my coauthor, I'm just the person who talks, she does the work--she came up with a statistical way to correct for this and we used this on data from all 50 states over 40 years. Now I've heard a lot of talk today that's compared us to Arizona, us to Florida. Sorry, us, you now. Sorry, I'm talking like I'm still in Omaha. I heard the same thing about Kansas. When they were pursuing tax cuts they compared themselves to Texas and North Dakota, hand-selected states for which there was basically very little comparison. We looked at all 50 states over 40 years, as much data as we could get our hands on. We used this new statistical model to correct for the problems and found a small positive effect of tax cuts. Basically, for every 1 percent you cut taxes, you get about a 0.2 percent increase in economic growth. This is really small and basically it disappears after two years. After two years, and this is another thing that our research allowed us to do is look over time, you end up with just background noise. There's no evidence that there's an effect past two years. So what happens in these states? Inevitably, because the tax cuts don't pay for themselves, they have to cut spending. When they cut spending our results suggest an even larger effect from the spending cuts than the

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tax cuts. So on the whole, the benefits do not outweigh the costs of this. Now in terms of talking about Kansas very briefly, I've heard it said that the way that Kansas went wrong is they didn't cut spending at the same time that they cut taxes. Nothing could be further from the truth. General Fund spending in Kansas has fallen every single year since 2013 when the tax cuts came. K through 12 has been cut dramatically. Some school districts have had to close two weeks early. Think about it. I don't want my daughter's school to close early because of a tax cut. Also, the university was cut. Our college took an \$800,000 cut last year because our funds were rescinded at the end of the year. We had to pass that on in terms of tuition increases and fewer aid to students. That's also real dollars that passes through into the community. So I just wanted to correct the misconception that somehow the problem with spending in Kansas versus tax cuts, if you've lived the experience, you know it was the tax cuts and I do think that's the current...what the Legislature is debating there right now. [LB337]

SENATOR SMITH: Thank you, Mr. Kriz. Do you...Senator Groene has a question. [LB337]

SENATOR GROENE: Did they...did Kansas phase in their tax cuts based on growth of revenues? [LB337]

KENNETH KRIZ: That's a good question, Senator. For part of it they did. They have triggers also. For the larger part, it was done immediately. That was the LLC exemption, the pass-through exemption, which I should say, by the way, has not shown to attract small businesses to the state at all. There's a good study out of Indiana University done by a friend of mine. Indicated that most all of the change in small businesses in the state has been...come from individuals and other forms of business relabeling themselves. [LB337]

SENATOR GROENE: But that wasn't the question. But anyway, so they had a shock. They had a revenue shock. [LB337]

KENNETH KRIZ: Yes, Senator. [LB337]

SENATOR GROENE: This doesn't give a revenue shock. [LB337]

KENNETH KRIZ: It does phase it in, which I will agree with. However, the logic is the same. I've heard it stated here that you want to do this in order to stimulate economic growth. So all I'm doing is presenting evidence that, based upon our research findings, you're not going to get that. [LB337]

SENATOR GROENE: Thank you. [LB337]

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SENATOR SMITH: I see no further questions. Thank you, Mr. Kriz, for your testimony. Next neutral testifier. [LB337]

CRAIG BOLZ: Senators. [LB337]

SENATOR SMITH: Welcome. [LB337]

CRAIG BOLZ: My name is Craig Bolz, C-r-a-i-g B-o-l-z. I'm a farmer from Palmyra, Nebraska. And the reason that I'm neutral on this is because it doesn't go far enough fast enough. There's been a lot of good things said here today by a lot of people. I can't repeat them all but one of them is you don't know how hot the fire is until you're in it, and I'm in it. And I've talked to my senators and they just don't get it. They don't get it. And I've got some things wrote down here. I'm going to go through them real fast. Number one, what happened here, why we're here in this real estate tax problem here today is because 15-18 years ago, whenever it was, when we put \$1.05 on the spending we didn't put 2 percent on the growth side. There isn't one person that was in the Senate then that would have ever thought \$800 land would go to \$8,000. And the school districts and all of the public entities, you ask them why does our budget go up so fast? Because we can. Because we can. I've had our school board tell me, because we can spend it. That's number one. The second thing is what's fair. I'm the most fair person you'll ever meet. What's fair about 1 percent of the people setting the valuation for 99 percent of the people, when only 1 percent of the land is sold per year? Nothing fair about that. Another thing that I have to say, and I want to leave the most important thing to last, sales and income tax are the only fair taxes. There's nothing fair about real estate taxes. And all I would ask is that if we could get it back to a third, a third, and a third. Our income tax is at a third. Our sales tax is way below. I think Reform Nebraska wants to raise the sales taxes. Great. But I actually want to pay income tax. I want to make money. That's why I work. I want to make money. Another thing I have to say is set the real estate taxes at 1 percent of the last sale, 1 percent, and live with it. Figure out how you're going to get the rest of the money or adjust your budget. This is the last thing I have to say and the most important I think to have to say. When I buy a tractor, when I buy a combine, I put it on the personal property tax for seven years. That is my tools. My tools make my living. What tool does a doctor, a lawyer, a teacher, a, oh, I don't know, a banker, what tools do they have that they make their living with? Their college degree. Let's listen to the city people whine if somebody proposes putting college degrees on the personal property tax statements for seven years. (Laughter) That is fair, fair, fair, fair. You want to tax my tools; tax the city person's tools. Thank you very much, Senators. [LB337]

SENATOR GROENE: I've got a question. [LB337]

CRAIG BOLZ: Sure. [LB337]

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SENATOR SMITH: Hold on just a second. Thank you, Mr. Bolz. Senator Groene. [LB337]

SENATOR GROENE: Thank you. I wanted to catch him before he backed away. Sorry, Chairman. Do you live in an equalized school district? Do you know what that means? [LB337]

CRAIG BOLZ: Yes, I know what it means. [LB337]

SENATOR GROENE: Do you? [LB337]

CRAIG BOLZ: Yeah. [LB337]

SENATOR GROENE: So...all right. Just wanted to know if... [LB337]

CRAIG BOLZ: Yeah, we get...and I think, I think the last time, I'm not exactly sure, but I know our state aid to schools has went down, down, down, and we might be at none. I'm not for sure. I do go to (inaudible). [LB337]

SENATOR GROENE: So you pay the highest rate at the \$1.05 probably then. [LB337]

CRAIG BOLZ: Well, they try to tax it as close as they can. We have went down a tick. We're not at \$1.05. You know, we might be at \$1.0476. We might be at \$1.02, you know. But we did just pass a school bond that they fought. It got defeated two times. They had to run it three times. So we just took a 10 percent hit on the school bond which is going to be for 20 years. I cash rent a lot of ground. Whether anybody wants to argue with me about it or not, I pay the real estate taxes on every acre I farm. [LB337]

SENATOR GROENE: Very good. Thank you. [LB337]

CRAIG BOLZ: Okay? Thank you very much for your time. [LB337]

SENATOR SMITH: All right. [LB337]

CRAIG BOLZ: Thank you very much. [LB337]

SENATOR SMITH: Thank you, Mr. Bolz. All right, this is going to be our last testifier in the neutral capacity. [LB337]

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DAVID SCHWANINGER: My name is David Schwaninger, D-a-v-i-d S-c-h-w-a-n-i-n-g-e-r, and I'm going to continue down the path that Craig went. I'm a fourth-generation farmer, southern Lancaster County. And I heard a figure thrown out that real estate taxes have gone up 60 percent in ten years. Mine have gone up 200 percent in ten years. What used to cost me \$14,000--I own the same number of acres--now costs me \$43,000 for 2017. In 2015 I did not make any money, yet I was still required to pay the \$37,000 tax burden that was expected of me from the state. The money that my great-grandfather, grandfather, father, and I worked for and paid for this land with after-tax dollars, now we're paying between \$90 and \$100 per acre in taxes to rent it back from the state of Nebraska every year. This is beyond absurd. I don't know why we spend so much time on sales...or on income taxes when you're breaking the number one industry in the state. Agriculture is the number one economic driver in the state. The farmers and the ranchers are all being bankrupt by these policies. And your esteemed colleague, Patty Pansing Brooks, who had that article in the paper last year in November, a year ago November, said, oh, the farmers just don't want to pay their share. Boy, that's sure generous and cavalier of her, isn't it? This is just a joke. And he talked about wind energy. I'm in an area where they've targeted for wind energy. But, oh, anybody who didn't own some land was going to get a wind turbine, they all came out in force to fight against it. Well, Iowa and Missouri and Kansas, plenty of states, Texas, have plenty of wind turbines and they don't seem to be causing low-level frequency vibration illnesses that everybody is touting. What it amounted to is the giant green-headed monster that if you're going to get payment for them, everybody else was jealous and didn't want you to have it. You know, really all I wanted was if I could have gotten three turbines that would have only paid my real estate taxes, that would have been a big boom to my economic situation. I have never gone backwards. I've been farming since 1980. I have never gone backwards as far in my life as fast as the last three years, and my taxes have never ever gone down. This is beyond absurd. And I agree with Craig. If you're going to tax me for the value of my land that I need to make a living, then tax that attorney, that teacher, that banker, whomever on the value of their education that they need to make their living. So let's talk about fair and equitable then. And everybody tells me I'm so lucky that I have deductions. Those deductions are 100 percent spent. If I buy fertilizer, seed, chemical, whatever it is, that money is gone. I'd be glad to pay the income tax and keep the rest. This is the most absurd thing of, oh, you're lucky you have deductions. Really? You can have all my deductions if you want to pay them. I'll take the money and the income. Income tax is a problem I would love to have. And I find it truly absurd that so much time is spent on such a ridiculous part of our economy when...and we're talking about bringing people into the state when you're trying to bankrupt the main economic driver in this state. Something needs to be done and fast. Is there any other...any questions I can answer? [LB337]

SENATOR SMITH: Yes, Senator Harr. [LB337]

SENATOR HARR: Thanks. And thanks for coming down here today, taking time out of your schedule. What part of the state are you from? [LB337]

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DAVID SCHWANINGER: I'm southern Lancaster County. I'm three-quarters of a mile north of the Gage County line, 20 miles that way. [LB337]

SENATOR HARR: Okay. All right. And the reason I ask that is because you're a fortunate one in this regard too. It's base times rate equals your amount that you owe, and there's enough diversity in the county you live in that if we lower your base it will probably get absorbed by the rest of the county. But in some of the more rural areas of the state, we can lower the base but that doesn't get absorbed. So all we have, if we lower this, this goes up. And so while I'm proud that you will be...or happy that you'll be helped by the next bill we're going to hear, I think we need to also talk about what do we do for the rest of the state as well, as how do we help those parts of the state where it is all rural and all ag. Because if we just lower what they pay, we're just going to raise their rate. But it's a great...your points are... [LB337]

DAVID SCHWANINGER: Some equalization needs to be done... [LB337]

SENATOR HARR: Right. [LB337]

DAVID SCHWANINGER: ...when your county commission can shoot down possible economic income,... [LB337]

SENATOR HARR: Well, that part is unfortunate. Yeah. [LB337]

DAVID SCHWANINGER: ...that gets really tough. [LB337]

SENATOR HARR: Yeah. Yeah. That part (inaudible). [LB337]

DAVID SCHWANINGER: I was told by the guy from the wind energy company that I had the best wind in the county, according to their maps. I said the best or the worst? I said I lived on the north end of that wind for most of my entire life, you know? (Laughter) And I despise wind. There's nothing that wears me out more than wind. But if I can sit in my living room and watch those turbines turn, I think I'd be whistling Dixie out of my rear end because I'm finally get some income from it. (Laughter) [LB337]

SENATOR HARR: A different kind of wind. [LB337]

DAVID SCHWANINGER: Absolutely. This is just beyond the pale. [LB337]

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SENATOR HARR: Yeah. [LB337]

DAVID SCHWANINGER: How can you...in 2015 I take a \$70,000 loss from row crop farming, plus I have to pay \$37,000 in real estate taxes that if I do not pay them the state of Nebraska will take my ground away from me. How do you...it doesn't take a real mathematician to figure out there's no future in that, right? [LB337]

SENATOR HARR: That's what we're trying to figure out today. So I appreciate your testimony. [LB337]

DAVID SCHWANINGER: It needs to be figured out quickly and this is... [LB337]

SENATOR HARR: Yeah, that's what we're working on, yeah. [LB337]

DAVID SCHWANINGER: ...and it needs to be changed and that diamond-studded, gold-plated school over east of me called Norris is known statewide for the money they spend, and just like Craig Bolz said, because we can. [LB337]

SENATOR HARR: Well, thank you. [LB337]

SENATOR SMITH: Senator Groene. [LB337]

SENATOR GROENE: So you're in the same school district, Norris. [LB337]

DAVID SCHWANINGER: Yes. Not as Craig but I'm in...he's in Palmyra. [LB337]

SENATOR GROENE: So they're equalized too probably. [LB337]

DAVID SCHWANINGER: I don't know. I assume so. [LB337]

SENATOR GROENE: Thirty-seven thousand dollars, they probably are. [LB337]

DAVID SCHWANINGER: Forty-three this year. [LB337]

SENATOR GROENE: Forty-three, all right, yeah, they probably are. [LB337]

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DAVID SCHWANINGER: On three quarters. [LB337]

SENATOR GROENE: Three quarters. And you're trying to make a living on that. [LB337]

DAVID SCHWANINGER: Yes. Well, I farm more than that, but Patty Pansing Brooks said the average farmer in this country or in this state had \$138,000 after tax income for five years straight. Well, she's dreaming. I think I would meet the demographic of the average farmer in this state. I'm 51 years old, I farm about 1,200 acres, I own three quarters, the rest of it's rented, and I'm about 40 percent irrigated. I haven't done the research but I think that would be very close to the average farmer in Nebraska. And what other business do you know of that has \$3 (million) to \$4 million worth of assets, spends half a million dollars in expenses every year, and they only make \$100,000? People would think you were insane. But it seems everybody resents a farmer if they make money, and I do not understand that. And usually it's people with their mouth full that resent it the most. [LB337]

SENATOR GROENE: Thank you. [LB337]

SENATOR SMITH: All right. Thank you for your testimony. [LB337]

DAVID SCHWANINGER: Thank you. [LB337]

SENATOR SMITH: (Exhibits 17-40) And that concludes the neutral portion of testimony. And I do have some letters to read into the record before we close on LB337. We do have a number of letters so bear with me here. Proponents on LB337: Adrian Suarez, Omaha, Nebraska; Mark Zimmerer from Norfolk Area Chamber of Commerce; K.C. Belitz from Columbus Area Chamber of Commerce; Arlene Speas from Omaha, Nebraska; Earl Speas, Omaha, Nebraska; Gary DeLancey, Plattsmouth, Nebraska; and Joan Walsh, Omaha, Nebraska. Those letters were sent in support of LB337. Opponents of LB337, we have letters from Mike Hornacek, Together Omaha; Tessa Foreman, Nebraskans for Peace; Amber Hansen, Community Action of Nebraska; Al Guenther, Dunbar, Nebraska; Anne Hindery from Nonprofit Association of the Midlands; Katie Skean, Lincoln, Nebraska; Heather Jenkins, Lincoln, Nebraska; John Cavanaugh, Holland Children's Movement; Terry Werner, National Association of Social Workers; John Neal, Lincoln Public Schools; John Skretta from STANCE; Maren Westra, The Urban League of Nebraska Legislature; Lorelle Mueting, Gretna, Nebraska; Michael Dulaney, the Nebraska Council of School Administrators; (also Jordan Rasmussen, Center for Rural Affairs). And then...and those were all sent in opposition to LB337. And then letters for the record in neutral: Joseph Henchman, the Tax Foundation; and Steve Nelson, Nebraska Farm Bureau Federation. And those were the letters that we received then for the record. And we're going to provide closing testimony on LB337 now. Oh. Go. [LB337]

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RICHARD HEDRICK: I was here at 1:30. I had to go down to that other room and I didn't get back here, so I'm going to put down my foot. I'm going to talk. [LB337]

SENATOR SMITH: Are you testifying in neutral capacity? [LB337]

RICHARD HEDRICK: What? [LB337]

SENATOR SMITH: Go ahead and testify. Go ahead. [LB337]

RICHARD HEDRICK: (Exhibit 41) I'm Richard Hedrick, H-e-d-r-i-c-k. Taxes are odious. Between property or income taxes, income taxes are the more...less odious. When I was farming in the '50s, I did not make a profit every year. No income, no tax to pay, while property taxes are owed. The ability to pay does not matter. Our conservative government...Ricketts family will save more money from income taxes, and Governor Ricketts is promoting income tax reduction. As stated in the Journal, Ricketts stated that \$100 is not...reduction for every...no, \$100 savings is not insignificant. I propose that \$100 reductions for every person property tax deduction would be simple. After the tax is figured, a person would deduct \$100 from their taxes owed. I came into the world with Hitler and supported...and supporters of Hitler, and supporters hated Jews. I remember groups in the movies, we would see movie newsreels. The German people would be attacking German Jews. I will be going out of the world with Trump and his supporters. Trump and supporters hate nonwhites. Difference between Germany and the United States? Some surveys find 60 percent of the people are against Trump. Today I see people in the United States as more of supporting opposition to Trump. Thank you. [LB337]

SENATOR SMITH: Thank you, Mr. Hedrick. No questions from the committee. Thank you for your testimony. Senator Friesen and members of the committee, thank you for your patience and appreciate Governor Ricketts being here to testify on behalf of LB337. It's an honor to introduce the bill on his behalf. And I thank the testifiers that have been here that have provided testimony in the various capacities. I think Senator Harr correctly stated that we do and we should care about all businesses and I know that we frequently entertain discussion in committee on incentives that are needed to spur growth engagement by some of our larger businesses, manufacturing, some of the specialty businesses, and that's important. I know we look at various types of incentives for our larger corporate businesses and there's many of our businesses that are burdened by property tax, and we've heard that as well. But we also should care about our small businesses and that's one of the reasons that I feel particularly engaged on this particular bill, LB337, that I do believe that it does help address some of the needs that we have with our small businesses. The Small Business Administration, and we were talking about effective tax rates, the Small Business Administration has indicated that pass-through businesses, small businesses that pay through the individual tax structures, their effective tax rates sometimes are 50 percent

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more than those that are paid through the corporate tax rates. There are certain burdens on our small businesses that we can help to alleviate with a bill such as LB337. As a small business owner myself that makes payroll, we have many of our employees are trades people, work in the craft, they...skilled. And I've actually had to sit down and explain to them when they get an increase or they see a bonus on their check, on their paycheck, why does a larger portion go out in taxes than before they received that increase in pay or that bonus, and it's because they move into a higher tax bracket. And so this bill can be meaningful to middle class. I do sense a willingness by the administration to work with the committee on addressing any concerns that there may be but within the fiscal...within the parameters of fiscal limits. And with that, I'll close on LB337. And again, I appreciate the Governor bringing this bill to us. [LB337]

SENATOR FRIESEN: Thank you, Chairman Smith. There any questions from the committee? Senator Harr. [LB337]

SENATOR HARR: Thank you. And thank you, Chairman Smith. And I'm just going to wage a complaint right now that I took a little break and I was approached by some people in the hallway who are very upset with the way that this hearing was held in that the Governor was given unlimited time, Mr. Fulton was given an unlimited time, and then we went into proponents. Those, too, were not counted towards the half hour. And then we went 45...40...approximately 45 minutes. I had 43 minutes on proponents; we had 34 minutes on opponents. Neutral, I stepped out of the room. There were a number of individuals who wanted to still testify. I think public hearings are one of the most important things we do in this Legislature and I will stay here till midnight if I have to so I can hear everyone who wants to come and testify. And I know there were some people who left who wanted to testify, and I have never seen this happen before in my all of seven years here before. But I'm kind of disappointed that occurred here today and I just wanted to state that for the record. Thank you. [LB337]

SENATOR SMITH: All right. [LB337]

SENATOR FRIESEN: Thank you, Chairman (sic) Harr. Any other questions from the committee? Seeing none,... [LB337]

SENATOR SMITH: Thank you. [LB337]

SENATOR FRIESEN: ...thank you, Chairman Smith. I'll turn the meeting back over to Chairman Smith. We'll close the hearing on LB337. [LB337]

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SENATOR SMITH: Thank you, Senator Friesen. We now move to LB338 to be introduced by Senator Lydia Brasch on behalf of the Governor to adopt the Agricultural Valuation Fairness Act. Welcome, Senator Brasch. [LB338]

SENATOR BRASCH: Thank you, Chairman Smith, and good afternoon. Good afternoon to the fellow members of the Revenue Committee. For the record, I am Lydia Brasch, L-y-d-i-a B-r-a-s-c-h, and I represent Legislative District 16. I come before you today to introduce LB338, the Agricultural Valuation Fairness Act, at the request of the Governor. As for my introduction, I intend to be much more brief than my speech for Ag Committee Chair, Senator Harr. (Laughter) I have come to this committee offering what I sincerely believe to be at least part of the solution to the property tax program currently plaguing agriculture producers. I believe the valuation method proposed in LB338, the income potential based method, provides a more fair and just system than the one currently used for assessing the value of agricultural land. Many, many senators prior to me, term after term, came before previous Revenue Committees proposing a solution to the problem of high and rising property taxes on ag land. This problem has only grown exponentially. Today taxes are so bad that many farmers and ranchers wonder if they will even be able to keep their farms, many of whom are the fourth, fifth, and sixth generation of ag producers. It is truly the only life they and their families have ever known. In good conscience, we cannot simply walk away from this problem. Not only is too much at stake but walking away from a problem is not the Nebraska way. Governor Ricketts, along with the Property Tax Administrator, Ruth Sorensen, they will follow me in testimony and they will be able to fully explain in detail the bill. I will take any general questions you may have for me at this point, but I would like to defer technical questions to the Revenue Department. Thank you. [LB338]

SENATOR SMITH: Thank you, Senator Brasch, for your opening on LB338. Do we have questions from the committee? I see none. Thank you. Governor Ricketts, welcome back. [LB338]

PETE RICKETTS: Thank you very much, Chairman Smith. I appreciate again the opportunity to be here to testify in front of your committee. And thank you, Senator Brasch, for introducing this important bill as well. Now we are talking about a different type of tax reform. We're talking about property taxes. And this is something again that will help make our state more competitive. If we look at what has happened since 2003 to 2013, property taxes on ag land have risen by 137 percent. Now two years ago in our budget, working together with the Legislature, we increased the Property Tax Credit Relief Fund by over 45 percent. That two-year or this two-year budget cycle, that's \$408 million in tax relief we provide through that Property Tax Credit Relief Fund. Last year we again worked on this issue. I worked at that time with the Chair of the Revenue Committee, who was Senator Gloor, on LB958. Now that process changed significantly through the legislative process, or that bill changed, rather, and that ended up being about an additional \$20 million a year directed toward property tax relief, specifically toward ag land in that

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Property Tax Credit Relief Fund. I also worked with Senator Sullivan, who was Chair of the Education Committee, on LB959, and that had two provisions in it: one with regard to taking away the penalty in the school aid formula for a school dropping its levy below 95 cents, and then also taking that qualified undertaking fund, which is a way schools can go above the levy limit, down from that 5.2 cents to 3 cents and clarifying it was not to be used for new construction. This year we're coming back with a major structural change--and again, I want to thank Senator Brasch for introducing this--to change the way that we value ag land from the market sales assessment, that we've done in the past, to an income potential assessment. This income potential assessment will be more fair to our farmers and ranchers because it's tying the value of that property more closely to the amount of income that can be earned off of that property. This is also something that will not only be more fair to our farmers and ranchers but is more standard across ag states. So, for example, South Dakota went to this a few years ago, North Dakota used it. Kansas, Iowa, Illinois, Indiana, Wisconsin, and Ohio, they all use this as a way to help their farmers and ranchers be more competitive. And certainly if you want to talk to a producer who has land both on the Nebraska side of the border and the Iowa side of the border, or Nebraska and Kansas, or Nebraska and South Dakota, they will tell you the relative difference they're paying in property taxes here versus property taxes in that other state. This will allow our farmers and ranchers to have more predictability with regard to that property tax and also make it so that we won't see those big runups in valuations we've seen in past years. If this had been in place in 2017, we would have taken about \$2.2 billion off of the ag land in valuations. So this is an important structural change. Now because this is a big change, we're proposing implementing this in January 2019 for a couple reasons: one, that will give our Department of Revenue the opportunity to work with county assessors to explain how this new system will work; and two, it will give those local taxing entities the opportunity to adjust their budgets because, again, this will vary in different parts of the state depending on where they are and what those valuations are going to be. We want those local taxing entities to have time to adjust their budgets for what this change in this budget...or this bill, this valuation program is going to mean to them. So we want to give them the opportunity to adjust as well. Again, this is major structural relief, major structural reform for how we do ag land valuations to tie it to income potential to make it more fair and more standard across ag states. This will help our farmers and ranchers be more competitive. So with that, I'd like to just end my testimony and happy to take questions. [LB338]

SENATOR SMITH: Thank you, Governor Ricketts. Senator Friesen. [LB338]

SENATOR FRIESEN: Thank you, Chairman Smith. Thank you for coming, Governor Ricketts. We do appreciate it. And I do appreciate the fact you've talked about property tax relief since before you were elected and I truly believe we're trying to get there. But I will lay out a scenario, basically, where with all the work we have done, and we have put a lot of money towards property tax relief, my property tax bill this year for the first time ever will go down by a couple dollars, even with all the money we've put towards it. And so when I look at this here, I

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recognize we're going to do it in a whole different structure. And if we would have put this in place ten years ago, I would be jumping all over this. But when we do it now, we've peaked in land prices and we're on our way down. I, in my lifetime, will probably never see a runup in land prices like we've seen. So is there...what else can we do or how can we change this to make it more meaningful? [LB338]

PETE RICKETTS: Well, Senator, I appreciate the comments, and I'm here today just to talk about LB338, the Agricultural Valuation Fairness Act. Certainly there are other ideas that you all are going to be taking a look at with regard to property tax reform and property tax relief. A couple of thoughts I have on that, one is whatever else you consider, and for the record, I'm not going to be supporting tax increases, but this is not mutually exclusive. Right? Whatever else we do, we could still do this. This is an important structural change for how we value ag land. So regardless of what else you consider, this doesn't impact that because this is something we should still do because this is what other ag states are doing to be more competitive. So we should be going to this system to help our farmers and ranchers be more competitive with what's going on in other states. The second thought I have is we didn't get into this situation overnight. As I mentioned in my statistics, right, 2003 to 2013 is when we saw that runup of 137 percent. What we want to do is continue to look for ideas, such as we've done over the last couple years, both with the Property Tax Credit Relief Fund two years ago; with LB958, LB959 last year; and then of course in December my Department of Revenue issued a directive to county assessors with regard to sales that may be outside the market, like 1031 exchanges or once in a lifetime type of exchanges. So we want to continue to pursue different ideas. This is a strategic reform about how we do those valuations, we should do regardless of what else we pursue with regard to how we continue on that journey of getting our property taxes in a place where our farmers and ranchers can be competitive. [LB338]

SENATOR FRIESEN: Okay. I mean I have some technical questions but I'll save those for somebody else that can probably answer them. [LB338]

PETE RICKETTS: That would probably be best. [LB338]

SENATOR FRIESEN: Thank you. [LB338]

SENATOR SMITH: Senator Harr. [LB338]

SENATOR HARR: Thank you. You know in the '70s there was the Equal Pay Act and the T-shirt said or bumper sticker said: When is a dollar not worth a dollar? When a woman does the work. And it was a statement that why isn't a dollar worth a dollar if it's...and I have the same problem and question here because we could probably replace that with farmland. And in years past, we

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lowered it to 75 (percent) and Senator Brasch brought a bill a couple years ago that said let's lower it to 65 (percent), I believe, right? [LB338]

SENATOR BRASCH: Uh-huh. [LB338]

SENATOR HARR: Yeah, 65 (percent). This lowers it to...and that was rejected, by the way. And now we have another bill that says let's lower it to 60 (percent). And the reason it was rejected was because the fear that we're not really doing anything, especially as I said to a testifier earlier. If you're an all rural area, if you lower the rate and all you have is ag land, you got to lower...you know, you got to lower the rate if you lower the base. How do we avoid that in this, with your bill? [LB338]

PETE RICKETTS: Okay. So I guess I'm not quite understanding your question, Senator. [LB338]

SENATOR HARR: So, okay. So we're lowering the rate...or the base, excuse me, from 75 (percent) to 60 (percent). [LB338]

PETE RICKETTS: Actually, it's not quite technically true. So what we're doing, if you look at the formula,... [LB338]

SENATOR HARR: Fair. [LB338]

PETE RICKETTS: ...when we do the market sales calculation, because that's what establishes the cap rate, it's actually at 75 (percent), as prescribed in law. [LB338]

SENATOR HARR: Well, it's allowed to be 60 (percent) to 75 percent, within that range. [LB338]

PETE RICKETTS: That's the range but when we do the actual calculation for it, we do it at 75 (percent). [LB338]

SENATOR HARR: Fair. But it's kind of like, hey, you want to buy this car for \$1.00 or \$1.10? Seems like you always buy it for \$1.00. You always go to the lowest common denominator. So...and we'll talk about cap rates later. Maybe in committee we can talk about the cap rate. But why are we allowing that large variance, between 60 and 75 cents, when we don't allow it in any of the other two categories? [LB338]

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PETE RICKETTS: Well, I will let our Property Tax Administrator, Ruth Sorensen, talk about some of the more technical aspects of it and about why she chose that range with regard to this particular bill. I would go back to when we do the actual calculation for the cap rate, we are using the 75 percent that's in the current law. So that's what we...when we take...we look at those three-year average of market sales and we take 75 percent of that to come up with the basis for the market sales, which we calculate the cap rate, so. [LB338]

SENATOR HARR: And you wouldn't mind if we just kept it, got rid of the 60 and just said 75 percent. [LB338]

PETE RICKETTS: Well, again, I'll let the Property Tax Administrator really describe how that fits into why they chose to do that. It's really more of a technical aspect of the bill. But the bill, on its face, when we're doing the calculation of the cap rate, we do it at the 75 percent level. [LB338]

SENATOR HARR: Okay. And so I know you own commercial real estate. I have a little bit. [LB338]

PETE RICKETTS: Actually, I don't know that I own commercial real estate. [LB338]

SENATOR HARR: On Howard Street? [LB338]

PETE RICKETTS: Oh, my office, yes, you're right. I do. [LB338]

SENATOR HARR: There you go. [LB338]

PETE RICKETTS: Yeah. (Laughter) [LB338]

SENATOR HARR: So I guess my question is you pay property taxes based on the value of resale or the market value. Why do we not do income-base for commercial property? [LB338]

PETE RICKETTS: The issue we're addressing right now is with regard to what we've really kind of heard already today with regard to agriculture and the runup we've seen in ag land valuations. I'm not opposed to looking at other types of tax reform. What I'm really concentrating on, though, is where I see the priority, which is with regard to agriculture. And again, going back to the statistics that I laid out there with regard to how much those ag land valuations have risen, and really trying to address that by changing structurally the way that we address how we do that

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valuation and tie it to the income potential that other states are doing so we can be more competitive and be more fair to our farmers and ranchers. [LB338]

SENATOR HARR: I don't think that really answers my question, though. Because if income is a better way of assessing the true value of a property and the value of an income property, whether it's commercial or ag, is based on what that land produces, shouldn't we do the same whether it's land or (inaudible)? [LB338]

PETE RICKETTS: I'm not, again, Senator, I'm not opposed to looking at other ideas with regard to property tax reform. I'm prioritizing. Because, as you were talking about before,... [LB338]

SENATOR HARR: Okay. [LB338]

PETE RICKETTS: ...we have to prioritize. I'm prioritizing this as the greatest need we have right in our state with regard to property tax reform and structurally changing how we do that because of what we've seen happen to our farmers and ranchers. You know, you heard some of the testimony already. I'm sure we'll hear more. Lots of producers come to me and show me their profit losses. I see between 30 and 40 percent of their gross is going just to property taxes. [LB338]

SENATOR HARR: Yeah. Is the problem we have with property tax that the valuations are too high, because wealth can be hard? Or is it that we have too many entities that rely on them for funding, meaning schools, local, NRDs, counties, cities, ESUs, Learning Communities? Is that the problem, or is it that valuations are too high? [LB338]

PETE RICKETTS: Well, the problem this bill is trying to address is specifically around how we do that valuation assessment. Now again, you're trying to get into a bigger philosophical picture about how we want to do it. [LB338]

SENATOR HARR: Right. Well,... [LB338]

PETE RICKETTS: I'm trying to address the specific priority of what have we seen happen with ag land valuations and this bill is tackling. Here's an issue where we see other ag states going to a methodology that is helping their farmers and ranchers be more competitive. We ought to be doing the same thing. Again, I'm not suggesting that this is the only thing that we can or should do, but this is a major structural change to help us be more competitive for our farmers and ranchers. [LB338]

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SENATOR HARR: All right. Thank you, sir. [LB338]

SENATOR SMITH: Other questions for our Governor? Senator Schumacher. [LB338]

SENATOR SCHUMACHER: Thank you, Chairman Smith. Thank you, Governor, for bringing this bill to us. I'm just trying to make sure that I understand the nature of the bill. Am I correct in thinking that there's pretty much an agreement between the Legislative Fiscal Office and I think the briefing we received in your office that the overall net effect, big picture, is going to be to reduce agricultural land values by somewhere in the neighborhood of 2 percent? [LB338]

PETE RICKETTS: If this bill had been in place January 2017, we would have taken about \$2.2 billion off of the ag land valuations here in our state (inaudible). [LB338]

SENATOR SCHUMACHER: And that's about \$100 million. So we're talking about 2 percent. [LB338]

PETE RICKETTS: It's just about 2 percent, yeah. [LB338]

SENATOR SCHUMACHER: Okay. So I was at least...and this 2 percent drop in value, apart from that what this bill does is kind of an intra-ag-sector bill that might shift value from one ag piece to another ag piece because of the different valuation principles. [LB338]

PETE RICKETTS: Well, it will certainly impact differently based upon a variety of factors. So there's eight different land classification types--whether it's dryland, irrigated, or grassland--will play into this. And, you know, where you are in the state specifically, again, getting back to those market sales, will also impact the cap rate. So we'll be calculating cap rates for all those things. So it will be something that will vary from state to state if that's what...or different parts of the state, depending on where you are, if that's what you're getting at. [LB338]

SENATOR SCHUMACHER: Right. So it's kind of intra-ag-sector with the exception of (inaudible)... [LB338]

PETE RICKETTS: Well, not... [LB338]

SENATOR SCHUMACHER: ...not shifting from property taxes in the ag sector to income or sales taxes. You're keeping it all within that sector but you're (inaudible). [LB338]

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PETE RICKETTS: Well, again, remember, this will be localized and so for the things that you're paying with the state will also...if you're talking about actual tax burden, what it's going to impact is what are the local taxing entities levying and that sort of thing. This is...but so I don't know that you can say...I guess I'm not...maybe I'm not sure exactly what you're getting at. But what it will do, like I said, it will vary depending on where you are in the state. [LB338]

SENATOR SCHUMACHER: I guess what I'm getting at is who's going to get a lesser tax bill under this and who's going to get a bigger tax bill? [LB338]

PETE RICKETTS: Well, the way this bill was designed is so that no matter where you are in the state, you're at least going to be held harmless. So nobody's tax bill on this will go up. They may stay the same but it will, like I said, on aggregate go down about that 2 percent you were talking about. [LB338]

SENATOR SCHUMACHER: So you don't foresee this as being a shift from property taxes to sales or income taxes. [LB338]

PETE RICKETTS: Again, this is just addressing the ag land valuations. How...depending on how you're defining that shift is probably a different question. But this, what this does, will take that \$2.2 billion off of the ag land valuation rolls. It will be...have different impacts in different parts of the state. How local taxing entities react to that, that will depend on a local response as well too. Actually I guess maybe to your...the other point you're getting at is this will require the state to put more money into the TEEOSA school aid formula. To an extent, that means that more income and tax relief will be going to the school aid formula, if that is what you're thinking about. [LB338]

SENATOR SCHUMACHER: Well, that certainly enters into the picture. But I'm just trying to get the nature of the bill and you're trying to more harmonize the tax burden in the ag sector with the productivity of the land. [LB338]

PETE RICKETTS: That is correct. [LB338]

SENATOR SCHUMACHER: Okay. Now right now, if you go on the assessors' Web pages, they'll have the break down of so many, you know, 160-acre tracts, say, so many acres of really good stuff, so many acres of not so good stuff, so many acres of pasture. And so those categories supposedly reflect the value of the land which should reflect its productivity. So how is this an improvement over what they're doing already? [LB338]

PETE RICKETTS: Well, one of the things that we're going to see is that we have the market assessment. So while we try to capture things like 1031 exchanges or once in a lifetime sales or things like that, you know, even with this director, for example, I think we're capturing about two out of every five 1031 exchanges that we're actually throwing out of the mix for market sales. But that could be artificially driving up the market price. What we're doing with this is we are going to go to an income potential, so we're going to be looking at what the income potential of that land is. And I'm certainly happy to talk broad-brush about how that's going to be calculated, how that will be calculated. But we also have Ruth Sorensen, our Property Tax Administrator, can talk about the details as well that will get at each of those more individually. So it will go to those land classification types that we discussed briefly earlier with regard to looking at how much income could be earned off of that particular land classification type within that county, times the cap rate, to get that overall income potential and so forth. So that's how you'll actually get at that valuation for the ag land so it will be tied back to the income potential of the land, which we believe will be more fair. [LB338]

SENATOR SCHUMACHER: One final question if I may. And that income potential does not include the income potential of the unrealized capital gains from the land appreciation. [LB338]

PETE RICKETTS: No, it will not. It will not have anything with regard to the capital gains you're talking about because it will be just focused on how much income can be earned from either the crops that are produced or the livestock that are raised or whatever that's going to be coming off the land, the income that comes off the land. Though it will include things such as, you know, if you've got CRP land or cash rents or things like that. [LB338]

SENATOR SCHUMACHER: And get into the weeds on some of this later. Thank you for your testimony. [LB338]

PETE RICKETTS: Okay. Thank you. [LB338]

SENATOR SMITH: Senator Friesen. [LB338]

SENATOR FRIESEN: Yes. Just...thank you, Chairman Smith. One last question: I guess when I looked at the whole big property tax picture and looking at what this does and what some other bills might bring, what's your feeling on, you know, I heard you say you will not increase taxes and I'm with you there. But does broadening the sales tax rate or the base, is that increasing taxes? Or looking at broadening, is that considered the same, or how do you feel about that? [LB338]

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PETE RICKETTS: If you're not paying...if you're paying tax...if you're not paying taxes on food today and we started taxing food, you feel like that's a tax increase. Is that fair? I mean if you're not paying it today and then we say you're going to have to start paying, that feels like a tax increase. So that's...I'm going to be against raising taxes on people, especially now when we're talking about what's going on in our farm and ranch economy, because that ripples out through our entire economy, right? Agriculture is our number one industry in the state. It's 25 percent of our economy, one in four jobs. It's the heart and soul of what we do. When we see farming can drop from \$7.5 billion in 2012 and 2013 down to \$4.5 billion in 2015 and probably \$4 billion in 2016 and maybe lower this year, you're seeing our farm and ranch families tighten their belts. We can't be raising taxes on anybody because that ripples through the entire economy. We got to make sure that we're looking for tax relief. And at the end of the day, the only way to have sustainable tax relief is by controlling spending. Fundamentally, tax relief is the difference between spending restraint and revenue growth. That's what I want to focus on. [LB338]

SENATOR FRIESEN: Okay. That kind of clarifies things for me. Thank you. [LB338]

PETE RICKETTS: Thank you. [LB338]

SENATOR SMITH: Senator Groene. [LB338]

SENATOR GROENE: Thank you, Mr. Chairman. Governor, ten years, we heard testimony from the Farmers Union and others that you get loans on a yearly basis on what you can produce and make, not on what you made ten years ago. Ten years ago includes '10, '11, '12, when corn was 6, 7, 8 bucks. Why not do the three years that the land is valued at right now, the three-year rolling average? [LB338]

PETE RICKETTS: So I believe, Senator, you're referring to looking back at ten-year average price yield... [LB338]

SENATOR GROENE: Yeah. [LB338]

PETE RICKETTS: ...or crop yields, rather. [LB338]

SENATOR GROENE: Yeah. [LB338]

PETE RICKETTS: So, certainly willing to work with the committee on any amendments to the bill with regard to the actual formula. We looked at a variety of different states. As I mentioned, a lot of states are doing this already. They had varying different years they went back and looked

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at those crop yields. So, certainly willing to look at that. That's the one we selected, but happy to have any further discussions about it. [LB338]

SENATOR GROENE: My assumption is reality the last three years, it matches the price of the land would probably drop that not 2 percent, probably 40 percent. [LB338]

PETE RICKETTS: Remember, those are crop yields we're doing ten years. The market sales is for three years. [LB338]

SENATOR GROENE: Oh, all right. All right. [LB338]

PETE RICKETTS: Yeah. [LB338]

SENATOR GROENE: So excuse me. [LB338]

PETE RICKETTS: No, but it's crop yields for ten years; market prices, three years. [LB338]

SENATOR SMITH: Senator Harr. [LB338]

SENATOR HARR: Thank you. And I got to get back to, is the problem that we aren't assessing the true value and this gets at closer what the true value is? Is that the problem we're trying to fix? [LB338]

PETE RICKETTS: That is the issue that we're addressing in this one, in this particular bill. Now, remember, we've come with other bills, we did in the past, so remember I referenced LB959 from last year and that was getting at expense control in education. And so there's a variety of factors that impact this. This is the one we're dealing with right now which is getting at the valuation and how we do that to make it more fair for our farmers and ranchers. And again, as I said, this is not mutually exclusive with other things we do with regard to property taxes. [LB338]

SENATOR HARR: I guess I have a little problem. I think market value is probably the best way of determining the value of something, is what someone else is willing to pay for it, not the money I could make off of it. I've never...when I value companies, that's what you do. You look at what someone will pay for it, not what I could produce off it. Now there's usually a correlation but not always. [LB338]

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PETE RICKETTS: Well, and certainly I think when you have a very liquid market, that's a fair way to think about it. But if you look at ag land sales, for example, and you only have maybe 1 or 2 percent of those ag properties turn over in a given year, you've got a less liquid market than maybe, say, something like in the stock market. And when you're looking at companies that are privately held, not on the stock market, you certainly look at their income but then you also look at comparable sales and comparable companies and things like that as part of it. [LB338]

SENATOR HARR: You look at the value of the company. [LB338]

PETE RICKETTS: So there's a lot of things that you look at that aren't necessarily just what someone is willing to pay but, you know, you look at their income, you look at what other things go on in the marketplace. And that's...so I'd say maybe thinking about those kind of other sales versus like in the stock market might be more appropriate because we're looking at the income potential of the land, which is when you have a company that's not on the stock market, you're looking at the income that it might be able to earn. [LB338]

SENATOR HARR: So let me dig down on that a little bit, because I agree with that. And there are different ways of valuing a company, right? Some of it is EBITDA. Some of them do it based on...I mean... [LB338]

PETE RICKETTS: Cash flows, right, you talk about cash flows some of it, yeah. [LB338]

SENATOR HARR: ...cash flows. You can do it based on, you know, if it's a bank, it's on your deposits. What do you use to determine what income is on a farm? [LB338]

PETE RICKETTS: So the way we've set this up, and I'll give you just kind of a broad-brush example, is we're going to look at ten-year average crop yields, multiply that by last year's commodity prices. [LB338]

SENATOR HARR: Yep. [LB338]

PETE RICKETTS: All that's available... [LB338]

SENATOR HARR: It's in here, yeah. [LB338]

PETE RICKETTS: ...through the USDA/NASS data. [LB338]

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SENATOR HARR: Yeah. [LB338]

PETE RICKETTS: Then apply an expense ratio. You're working with the University of Nebraska, of surveys with farmers and ranchers so we get a net income. [LB338]

SENATOR HARR: And now who...that's a question I had was who does the expense ratio? [LB338]

PETE RICKETTS: So that will be the Department of Revenue working to come up with that, again, working, you know, taking data from the University of Nebraska or surveys from farmers and ranchers and so forth. And then when we have that, kind of that net income off the land, you divide that by what the last three years of market sales are and get your capitalization ratio. Oh, thank you very much. And then you can apply that back to those different land classifications within that county to get the total income. [LB338]

SENATOR HARR: And what would you have as gross farm expenses? [LB338]

PETE RICKETTS: Well, again, I'll let the Property Tax Administrator talk more in detail about what's going to go into that expense ratio. Like I said, the University of Nebraska does research on this and comes up with numbers with regard to, you know, expense ratios for different operations. [LB338]

SENATOR HARR: Is that the Nebraska Farm Business Inc. that does that, part of UNL? [LB338]

PETE RICKETTS: You know again, I will let the Property Tax Administrator get into the details on that. [LB338]

SENATOR HARR: Okay. I see her right behind you, so I'll look forward to it. [LB338]

PETE RICKETTS: She's sitting right behind me. [LB338]

SENATOR HARR: Thank you. [LB338]

SENATOR SMITH: All right. Thank you, Governor Ricketts, for your testimony. [LB338]

PETE RICKETTS: Great, thank you. [LB338]

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SENATOR SMITH: And I believe we're going to welcome Ms. Sorensen to provide some expert testimony on this and weigh additional questions. Welcome. [LB338]

RUTH SORENSEN: (Exhibit 1) Thank you. The page is going to be handing out my testimony, along with a chart and a regional map for your information. Chairman Smith, members of the Revenue Committee, my name is Ruth Sorensen, that's R-u-t-h S-o-r-e-n-s-e-n. I am the Property Tax Administrator for the state of Nebraska and I'm speaking in support of LB338, which is the Governor's property valuation bill known as the Agricultural Valuation Fairness Act. This act creates a valuation structure for agricultural land based on the value the land has to produce an agricultural product. This will be the agricultural use value. You have been provided with a regional map and a chart of estimated 2016 assessed values, which we've trended into 2017 assessed values. Again, it's important to emphasize that this is estimated because we will not have the actual 2017 assessed values until later in March. However, using the estimated values, this chart reflects what the changes in value for agricultural land would have been in the counties under the current market approach compared to the expected changes in values if the income production method had been in effect for 2017. The chart shows that using the income approach slows the growth of agricultural land valuation increases. LB338 is shifting the tax burden back to a distribution closer to what existed in 2006, when the Legislature decided that 75 percent preferential assessment was appropriate. Since 2006, the statewide value of agricultural land has increased 264 percent while residential has increased 34 percent and commercial and industrial has increased 43 percent. LB338 keeps the county assessors as an integral part of the process. The county assessor retains local control and is the individual responsible for assigning a value to all land in the county, including agricultural land. The county assessors currently use soil types published by the Natural Resources Conservation Service to inventory each soil into a land capability group. The soils with similar production capabilities are combined into eight categories by land use, as the Governor has indicated. There have been inquiries about the soil classifications that are used by the Department of Revenue. If a farmer or rancher disagrees with those classifications or how their soil is classified or categorized, they can engage or contact a soil scientist and send that soil information to the Department of Revenue. And in the bill, they have the ability to protest that market characteristic to the county board of equalization. So if there's any issues with their market characteristics or the soil capabilities or the soil classifications, there is a mechanism by which that can be corrected. With LB338, for cropland a ten-year average yield for each county, based on the primary crops in that region, will be used. This will smooth out the effect of different weather patterns and average out the good years with the not so good years. Most states use somewhere between an eight- to ten-year average. The production information from the USDA is available for those past years. Gross income will be determined by multiplying the average yield by commodity prices for the most recent year. Expense ratios will be developed using information from the USDA/NASS, which is the National Agricultural Statistics Service; University of Nebraska; and surveys from farmers, ranchers, and agribusiness regarding actual expenses and landlord shares. The gross income

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minus expenses, as described above, will result in the net income. Then a productivity index will be used to distribute that net income to the various land capability groups within the county or that market area. For grassland the analysis will be based on its current use for grazing land or as hay land. The estimated yield by considering the...for the grassland which is the grazing land, the estimated yield will be used by considering the carrying capacity in animal unit months using an average of the past ten years. The most recent rental rate per animal unit month will be multiplied by the carrying capacity to determine the gross income. So that's the most recent rental rate per animal unit month, multiplied by the carrying capacity to determine gross income. The capitalization rates will be determined by evaluating the net income of agricultural land sales from the most recent three years. And in oversimplified terms, that's dividing the income estimate per acre by the selling price per acre, which will arrive at the capitalization rate. The range of income by land capability group and land use will be certified to county assessors on or before January 1 each year. The county assessors will then evaluate the ranges that are provided and may make adjustments as necessary within the range to reflect the current income. County assessors can petition the Tax Commissioner by February 1 for alternative net incomes if information is available to show that adjustments are necessary to produce uniform and proportionate values. Also, the Property Tax Administrator, myself, may petition the Tax Commissioner by April 1 if the values established by a county assessor do not comply with the requirements of the act. After calculating and evaluating the assessed value ranges for each county, the county assessor will apply the values and file the county abstract with the department in March. The department will then calculate the aggregate statewide agricultural use value. And if that value exceeds 3.5 percent over the prior year assessed value, the values will be reduced by an order from the Tax Commissioner, which is basically increasing the capitalization rates uniformly, by a uniform factor, to achieve the aggregate change of 3.5 percent. Valuations statewide will remain uniform and proportionate within the class of agricultural land and horticultural land. Again, LB338 will be operative in 2019, giving plenty of time for county assessors, political subdivisions, and we at the state to work out the details of this bill to prepare for this change and ensure uniform and proportionate values. This is something that we can do responsibly and it's something that we should do. Thank you. Are there any questions? [LB338]

SENATOR SMITH: Thank you, Ms. Sorensen. Do we have questions from the committee? Senator Friesen, then Senator Groene. [LB338]

SENATOR FRIESEN: Thank you, Chairman Smith. So I guess I'm kind of interested in calculating on the market prices. And so you say the market prices that you're going to use are a ten-year average of... [LB338]

RUTH SORENSEN: We're talking...the yield? [LB338]

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SENATOR FRIESEN: The yield. The yields are ten years. [LB338]

RUTH SORENSEN: Yield is ten. [LB338]

SENATOR FRIESEN: And the market prices are the current year. [LB338]

RUTH SORENSEN: Three. They're three years. [LB338]

SENATOR FRIESEN: The three-year? [LB338]

RUTH SORENSEN: Oh, okay, so there's going to be the yield is ten years, the commodity is most recent, and then the sales will still be the three-year period. [LB338]

SENATOR FRIESEN: Okay. So what figures into your expenses when you figure an expense on raising that crop? [LB338]

RUTH SORENSEN: It's all the actual expenses of the farmer or rancher. [LB338]

SENATOR FRIESEN: Will that include property taxes? [LB338]

RUTH SORENSEN: Yes, it includes property tax and the insurance, yes. [LB338]

SENATOR FRIESEN: Okay. So if you have a loss of \$100 an acre, does that calculate into your formula? Does that work? [LB338]

RUTH SORENSEN: Well, what will happen is we will look at...we will calculate the gross income by the land use and it will depend on what type of crop is being...is the primary crop in that county, whether corn, soybean, wheat, alfalfa, whatever it is. And so then what we'll do is we'll take that land use and we'll waive the income based on the percentage of those crops in that county. So that will come into the account of with the expenses as we calculate it. [LB338]

SENATOR FRIESEN: So if you...so you take...if you're using land prices over the last three years,... [LB338]

RUTH SORENSEN: Correct. [LB338]

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SENATOR FRIESEN: ...you're using the market price or the yields over a ten-year period,...
[LB338]

RUTH SORENSEN: Correct. [LB338]

SENATOR FRIESEN: ...and you're using current prices. [LB338]

RUTH SORENSEN: Commodity. [LB338]

SENATOR FRIESEN: But so then you...and we can only move up 3.5 percent or down 3.5 percent. [LB338]

RUTH SORENSEN: It would be just no greater increase than 3.5 percent. [LB338]

SENATOR FRIESEN: So we could drop faster than 3.5 (percent)? [LB338]

RUTH SORENSEN: Absolutely. [LB338]

SENATOR FRIESEN: Okay. [LB338]

RUTH SORENSEN: And it's only if the increase is greater than 3.5 percent then that the Tax Commissioner would apply a uniform factor. But it could come in lower than, you know.
[LB338]

SENATOR FRIESEN: Okay. [LB338]

RUTH SORENSEN: It could be a decrease. [LB338]

SENATOR FRIESEN: Thank you. [LB338]

SENATOR SMITH: Senator Groene. [LB338]

SENATOR GROENE: Thank you, Mr. Chairman. Forgive me but I didn't have a chance to read this thoroughly. Where's the three-year in this statute? What line and section does it say a three-year income average? All I see is ten years. [LB338]

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RUTH SORENSEN: I believe it's going to be...it will indicate market value. And the three years is something that we have in our regulation, in our policy. That's what we have currently. That's what the assessors are using currently for a study period is a three-year study period for agricultural land. [LB338]

SENATOR GROENE: But it's not in the statutes then. [LB338]

RUTH SORENSEN: It's not in the statute. It's regulation and policy that we have enacted due to the...and that's because there are limited sales in agricultural land, as you go west in the state, and so we were expanding the sample size to look at what's happening. [LB338]

SENATOR GROENE: So all of this here applies to three years because that's in another statute that already exists. [LB338]

RUTH SORENSEN: Well, it's not in statute. It's a regulation and a policy that we have. We set the study period time frames. We have two years for residential, three years for commercial, and three years for agricultural. [LB338]

SENATOR GROENE: And how much does the income weigh? How much weight does it have in the valuation? [LB338]

RUTH SORENSEN: Under the income base? [LB338]

SENATOR GROENE: Yeah. [LB338]

RUTH SORENSEN: What we'll do is we'll, again--I can go through the process--we determine the average yield using that ten-year yield and then we multiply that average yield by the commodity,... [LB338]

SENATOR GROENE: Yeah. [LB338]

RUTH SORENSEN: ...recent commodity prices to arrive at gross income. And then we calculate the crop percentage in that county and we apply the...we calculate the gross income per acre on the land use. And so then the acres harvested are weighted in that regard because then what we have is the gross income and the crop percentage, and then...and in my example that I have here, it's a dryland and it's corn, soybeans, wheat, alfalfa in this example. But we're also going to weight all those because crops rotate. [LB338]

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SENATOR GROENE: I understand. [LB338]

RUTH SORENSEN: And so that we're going to be doing that. [LB338]

SENATOR GROENE: But I don't know how...what weight factor do you use? I mean it's like Curt said, Senator Friesen, more respectful, said you could lose \$1,000 an acre. So then does your land become a negative \$1,000 valuation or how... [LB338]

RUTH SORENSEN: No. [LB338]

SENATOR GROENE: ...how do you weigh the income into the existing value of the land by real estate prices? [LB338]

RUTH SORENSEN: Oh, by the real estate prices. [LB338]

SENATOR GROENE: Well, you... [LB338]

RUTH SORENSEN: So what you're asking then is, how are the agricultural land sales going to help determine the average selling price per acre? [LB338]

SENATOR GROENE: Yeah. They're still involved here, the average selling prices of land, right? [LB338]

RUTH SORENSEN: Right. So if, for example, the major land capability group in a county was 3D, which is dry, we would look at all those sales for the three-year study period and find 3D. [LB338]

SENATOR GROENE: All right. [LB338]

RUTH SORENSEN: And find what the average selling price was. And then we're going to adjust that average selling price. In my example it was \$4,142. We're going to adjust that to 75 percent of market because it's still 75 percent of market and that will arrive at about \$3,100 for the net income. [LB338]

SENATOR GROENE: All right. [LB338]

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RUTH SORENSEN: And so then what we'll do then is we'll take the net income...I'm sorry, of the sale amount of \$3,100. We'll take the net income, divide it by that \$3,100, so we're taking into account the decreases, and then we'll arrive at a capitalization rate which then we would forward to the county assessors. [LB338]

SENATOR GROENE: Sort of just multiplication. [LB338]

RUTH SORENSEN: It's a multiplication process and it would take into account lower sales. [LB338]

SENATOR GROENE: Yeah, so the valuation still is there because the constitution says it has to be fair market value, so that's still there. But because ag land has an exception in the constitution, you can play this game with the income because we can do it by statute, right? [LB338]

RUTH SORENSEN: Well, we can, yes, we can change to an income production approach, absolutely. [LB338]

SENATOR GROENE: So one more question. Yes. Now the farmer gets his bill and he...how does he go to the TERC Board and argue the value of his land? It's still based on that valuation, because his count, when he goes to protest his valuation, would still be based on what his land is valued at, right? [LB338]

RUTH SORENSEN: Not only that; by soil potential, the productivity potential. And so what would happen then is they would go in through the same process of protesting to the county board of equalization that the market characteristics are not correct, that there's something that is flawed in the income that was generated...determined to generate off this parcel. And they would go to the county board of equalization. If the county board of equalization doesn't make any changes, then it would go on to the TERC level. [LB338]

SENATOR GROENE: Thank you. [LB338]

SENATOR SMITH: Senator Friesen, then Senator Harr. [LB338]

SENATOR FRIESEN: Thank you, Chairman Smith. So I'm looking at the chart you gave us here. And I look at the...and the York School District is not in my district but it's right close to me. So their property taxes are right at \$100 an acre. And when I look here, this formula then does nothing for them, zero. [LB338]

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RUTH SORENSEN: Well, it... [LB338]

SENATOR FRIESEN: So my question I guess is if we would be going in the next two years at a \$50-an-acre loss or a \$100-an-acre loss, what kind of change would you expect to see in the value of that land? [LB338]

RUTH SORENSEN: Well, what this chart is actually showing you is that if we don't change there would be an increase of 2 percent, so the farmers and ranchers would have an increase in value. But the zero means that if were using income production there would be no increase. [LB338]

SENATOR FRIESEN: Okay. [LB338]

RUTH SORENSEN: So the valuations would have stayed either... [LB338]

SENATOR FRIESEN: The same. [LB338]

RUTH SORENSEN: ...either the same or lower,... [LB338]

SENATOR FRIESEN: Yeah. [LB338]

RUTH SORENSEN: ...because this is an average for the whole county. [LB338]

SENATOR FRIESEN: So if we would go into an extended time here of low prices and we're losing money, \$50 to \$100 an acre a year, what do you expect to see a change in valuation of that land? What kind of drop would you expect to see using that formula? [LB338]

RUTH SORENSEN: That would be hard to estimate because I don't have the actual values and I don't know what's going to be happening in 2019. But I can tell you it's going to be continually decreasing the values of agricultural land or remaining flat. [LB338]

SENATOR FRIESEN: But you couldn't tell me how fast it will decline. [LB338]

RUTH SORENSEN: That would be very difficult to estimate at this point. [LB338]

SENATOR FRIESEN: Okay. Thank you. [LB338]

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SENATOR SMITH: Senator Harr. [LB338]

SENATOR HARR: Thank you, Mr. Chairman. And I hope you'll give me a little deference because this is complicated and I really don't understand this, so. And if we're going to pass this, I got to figure out what's going on. My first question is you stated increase in values from the year '06. Is that going to be our baseline? Is that what we should, going forward, always adjust to try to get proportions equal to '06? [LB338]

RUTH SORENSEN: Two thousand six? [LB338]

SENATOR HARR: Yep. You mentioned... [LB338]

RUTH SORENSEN: No. [LB338]

SENATOR HARR: ...in 2006 ag was 26...residential...it was about 261 percent; residential has gone up 34 percent; commercial has gone up 43 percent, and that this bill gets us back to the proportions that were in 2006. [LB338]

RUTH SORENSEN: Well, I indicated that it's attempting to get us back to where it was in 2006. [LB338]

SENATOR HARR: So is that going to be the baseline? Should that be our policy going forward is always to have the same proportions as 2006? [LB338]

RUTH SORENSEN: No, but it's creating more consistency for the farmers and it's more fair for the farmers. [LB338]

SENATOR HARR: Yeah. Well, 2006 is right at the peak of a commercial boom and a residential boom, and then there was a...and I think you'd agree with me, wouldn't you? [LB338]

RUTH SORENSEN: Well, we have...what we have at the Department of Revenue that we provide to the Revenue Committee is a ten-year history and so we show... [LB338]

SENATOR HARR: But you'd agree with me (inaudible) the peak time. [LB338]

RUTH SORENSEN: ...there was commercial. [LB338]

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SENATOR HARR: Okay. Now we're going back to farm expenses because I don't have a farm, I don't know what expenses are. Would you count seed as a farm expense? [LB338]

RUTH SORENSEN: Fertilizer, seed. [LB338]

SENATOR HARR: Okay, fertilizer was next. Crop chemicals? [LB338]

RUTH SORENSEN: Yes. And that... [LB338]

SENATOR HARR: Okay. Crop insurance? [LB338]

RUTH SORENSEN: ...I know we have farmers and ranchers behind us that know more but... [LB338]

SENATOR HARR: Well, but you're the one. You're the expert. [LB338]

RUTH SORENSEN: Yep. That's...well,... [LB338]

SENATOR HARR: I was told by the Governor, you're the expert. [LB338]

RUTH SORENSEN: I'm the expert... [LB338]

SENATOR HARR: What about crop insurance? [LB338]

RUTH SORENSEN: Yes. I testified to that. [LB338]

SENATOR HARR: Okay. Feed? [LB338]

RUTH SORENSEN: I'm sorry? [LB338]

SENATOR HARR: Feed? [LB338]

RUTH SORENSEN: Any actual expenses of a farmer or rancher. [LB338]

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SENATOR HARR: Okay. What about going to a conference in Hawaii to learn more about agriculture? [LB338]

RUTH SORENSEN: I don't believe they report that as a actual expense. [LB338]

SENATOR HARR: Well, you can learn how agriculture works. I mean I get CLE. I go places... [LB338]

RUTH SORENSEN: That is not what the USDA collects. [LB338]

SENATOR HARR: Well, but so that's what I'm trying to figure out. That's why I'm asking. I don't know and that's why I appreciate. All right, what about rent? [LB338]

RUTH SORENSEN: There is rent shares and there's landlord shares. [LB338]

SENATOR HARR: Okay. So is this income based on the income of the farmer or is it based on the income of the landlord? [LB338]

RUTH SORENSEN: It's based on the income of the soil potential, what can the soil produce only. [LB338]

SENATOR HARR: Okay. So let me ask you this. Why do we do potential of soil taxes but not potential of individuals for taxes? [LB338]

RUTH SORENSEN: I don't do taxes. I do value. [LB338]

SENATOR HARR: Okay. Well, that's...it's a question we'll have to talk about later. I guess my question is, and I don't know because I would really appreciate if you would give us a breakdown of how this works in numbers because I'm a visual person. [LB338]

RUTH SORENSEN: Okay. [LB338]

SENATOR HARR: I don't understand, for instance, can you tell us what a cap rate is? [LB338]

RUTH SORENSEN: Yeah, it's the expected rate of return on your asset. [LB338]

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SENATOR HARR: Okay. And how do we determine the capital rate on this, in this instance? [LB338]

RUTH SORENSEN: It's very similar to a bill that was introduced in 2015, a market-based cap rate for the rent-restricted housing. [LB338]

SENATOR HARR: Okay. And so could you explain it for the record? [LB338]

RUTH SORENSEN: I can explain how the cap rate is determined. I did go through that briefly but I can go into more detail if you like. So what we're going to do for the capitalization rate is we're going to come up with a net income of the parcel and we're going to divide that by the sale amount that we've gone through those sales for three years. [LB338]

SENATOR HARR: Yeah. [LB338]

RUTH SORENSEN: In my example, 3D is the majority land capability group and so we determined it was \$3,100 an acre... [LB338]

SENATOR HARR: Okay. [LB338]

RUTH SORENSEN: ...based on those sales, and because that brings it to the 75 percent. So if the net income was \$109, we're going to divide that \$109 by the sale price of \$3,100 and you get a cap rate of 3.5. [LB338]

SENATOR HARR: Okay. So that leads to my next question. Why do we need to have such a large variation of 15 percent, between 60 and 75 percent, when we don't have that in any of the other two portions...types of property? [LB338]

RUTH SORENSEN: Well, it's because the width of the range is going to allow the value to fit within that range using the cap rate with an average value, and it also covers either the high end or the low end of the income range, which will be selected by the county assessor. So we're going to send them income ranges and they're going to determine the high...which income range to use and so that will allow for the local control of values based on that general income range. But we're also going to be monitoring at the Department of Revenue that the assessors don't select the incomes that bring up so super low because statute requires valuation at 75 percent. [LB338]

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SENATOR HARR: Okay. But it could fall below 60 percent, couldn't it? [LB338]

RUTH SORENSEN: Well, that's...I don't believe it will because... [LB338]

SENATOR HARR: I didn't ask you if it would. I said it could. [LB338]

RUTH SORENSEN: Future years, I... [LB338]

SENATOR HARR: Well, because what I do is I look at, you know, we had a bill last year in front of us to cap growth at 3 percent instead of 3.5 percent. I think you're familiar with that bill. [LB338]

RUTH SORENSEN: Absolutely. [LB338]

SENATOR HARR: Okay. And what we found is if you did a ten-year average, if we had kept that 3 percent, property would be assessed at 27 percent of value instead of 60 to 75 percent. So how does this differ from what you introduced last year? [LB338]

RUTH SORENSEN: We are not going to be relying on the market approach, the sales that are in the sales files strictly and alone. We're going to be looking at the potential of the land, what can this farmer/rancher use for this type of soil. And what's going to happen is we aren't...those larger dollar sales are not going to be skewing the market as they're skewing the market now. And also say if, for instance, you have a sale with recreational land along a river. The income is going to be lower on that parcel because a majority of that is recreational and it's really a recreational parcel if they don't have enough agricultural land. [LB338]

SENATOR HARR: So if based on potential income, yields, I think you'd agree with me, have gone up over the last 30 years per acre. [LB338]

RUTH SORENSEN: I...depends on the commodity, I believe, on what's being grown. [LB338]

SENATOR HARR: Okay. Let's just...I listen to Nebraska games on the radio and the Corn Growers have a lot of ads. (Laughter) And I've heard it's gone up quite a bit. [LB338]

RUTH SORENSEN: Okay. [LB338]

SENATOR HARR: Okay? [LB338]

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RUTH SORENSEN: I'll agree. [LB338]

SENATOR HARR: So just assume...will go with me here. And it's due to a lot of differentials, right? [LB338]

RUTH SORENSEN: Absolutely. [LB338]

SENATOR HARR: It's not based on the fact that the soil is better. It's based on inputs that go into it, expenses. If I choose not to use a higher breed, you know, hybrid corn or if I choose not to, you know, irrigation versus dryland, how are those choices that the farmer makes that are for the best, right, they increase yield, how are those caught in this...in my income, in your cap rate and everything that you're doing here? [LB338]

RUTH SORENSEN: That's going to be the National Agricultural Statistics that we use and it's going to be national and we're going to be looking at...and then the yields that are coming off of these soils. So the soil scientists have determined the soil types. And then we're going to look at USDA for the potential of those soils. [LB338]

SENATOR HARR: And where... [LB338]

RUTH SORENSEN: And everybody is going to be valued the same. [LB338]

SENATOR HARR: And where is that in the statute that you use NASS, that you use USDA? [LB338]

RUTH SORENSEN: I don't...I don't know if we have it strictly in the bill but we sure could add it if you want us to. [LB338]

SENATOR HARR: I think, yeah. [LB338]

RUTH SORENSEN: I would rather...well... [LB338]

SENATOR HARR: I'm a belt, suspenders person. [LB338]

RUTH SORENSEN: Okay. But what the...the reason why we didn't put it into the bill is to provide the flexibility to use a variety of sources. There's so much sources out...resources out there to determine expenses. If you feel that in certain areas the surveys may not be completed

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correctly, you can look in a different area. And so if we start limiting what our resources are in the bill to use, unless we use etcetera or any other resources available, we sure could do that. And I'm sure the Governor would be happy to work with... [LB338]

SENATOR HARR: But put yourself in my shoes. I'm the policymaker and I think I'm doing one thing and then, lo and behold, I get the carpet pulled out from under me and there's some other process used, even in what you testified here today. And not that I don't trust what you're saying, but as my friend Ronald Reagan said, trust but verify. And so I want to know what we're doing and I don't want it pulled out from underneath the farmers either, right? I want to make sure everyone knows because every business person will tell you certainty is as or more important than the rate of taxes they pay. They want to be able to determine what that is. So I think we need...I think it needs a little more work. I'll look forward to working with you on this to see how we can improve it. And I do want...I want to have what is accepted as expenses and what is not, not just it's in the USDA, because I think farmers should continue to get education and I think that is a valid expense. But I don't think necessarily going to Hawaii is a valid expense, but maybe it is because there's something unique to Hawaii. And so I need to know what we're doing, right? [LB338]

RUTH SORENSEN: Okay. [LB338]

SENATOR HARR: So I'll leave it at that today. One last question and that is, what if I own the property and I want to rent it...well, no, excuse me. My father owns it. He wants to rent it to me for \$1. Does that affect the income or his property taxes down the road because the rent goes into it? If the rent is only \$1, it limits the income on the property, does it not? It's a sales/lease-back theory. [LB338]

RUTH SORENSEN: Well, what that parcel will be valued based on the soil type and the capability of the soil, and what we look at for landlord share of rental... [LB338]

SENATOR HARR: But I thought rent was one of the valid expenses. [LB338]

RUTH SORENSEN: It is part of the expenses and we look at landlord share. [LB338]

SENATOR HARR: So you could manipulate your property taxes by either lowering or increasing your rent if it's owned within a family. [LB338]

RUTH SORENSEN: I would not agree with that. [LB338]

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SENATOR HARR: And why is that? [LB338]

RUTH SORENSEN: Because we are going to be looking at what the average rental rates are and also the average types of income off the property, you know, the potential. And so by a farmer making a deal with his son for \$1, we're going to look at the average rental rates. And then the landlord share comes into play. Then we look at what is the national estimate of what does a landlord pay, what does a renter pay? And the renter is going to pay the majority of the expenses to farm that land. [LB338]

SENATOR HARR: Right. But there are people, and I know this is going to shock you, who try to find ways to manipulate the system and lower their tax burdens. And there are large landowners in counties and they could have one LLC own the property, another LLC run the farm operation, which probably for bankruptcy purposes they should because I've heard we're going to get bankrupt, a lot of farmers are going to go out. So maybe that's a good idea. You could manipulate that if you had enough farmers. One LLC could rent to the other LLC either for a really high value or a really low value, depending on what that would do to affect their property tax values. That one I can do the math on and I can walk you through, right? That one I know how to do. [LB338]

RUTH SORENSEN: (Laugh) Well, I can tell you we don't value based on who owns it and who rents it. That's for sure in valuation purposes. [LB338]

SENATOR HARR: So you have two different LLCs. [LB338]

RUTH SORENSEN: That doesn't matter who owns the ground. It's going to be valued on the income potential and then we're going to look at the landlord extra shares. [LB338]

SENATOR HARR: But you're going to look at the rent. You said that's a valid expense. [LB338]

RUTH SORENSEN: Rent is, absolutely. [LB338]

SENATOR HARR: Right? So I can manipulate the rent. [LB338]

RUTH SORENSEN: But we're going to look at what the average in that region the rental rates would be. [LB338]

SENATOR HARR: But if I own enough farmland in a region, I can manipulate it. [LB338]

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RUTH SORENSEN: Well,... [LB338]

SENATOR HARR: And there are large farm owners out there and landowners. [LB338]

RUTH SORENSEN: I would have to look at how this...the federal...the national service looks at average rental rates. And perhaps somebody behind me would be able to answer that, but. [LB338]

SENATOR HARR: But you're the expert. [LB338]

RUTH SORENSEN: I'm the expert and I could tell you we going to use average rental rates and that we're not just going to look in one county. We're going to look at the region. I gave you a region map. [LB338]

SENATOR HARR: Okay. Thank you. [LB338]

SENATOR SMITH: And, Ms. Sorensen, we have a question from Senator Groene, but thanks for bearing with us. This is a very complicated matter... [LB338]

RUTH SORENSEN: Uh-huh. Uh-huh. [LB338]

SENATOR SMITH: ...and I think some of the questions and exchange have been very good and helpful, so. [LB338]

RUTH SORENSEN: Yeah. Absolutely. Yeah, we will be looking at regions. [LB338]

SENATOR HARR: Okay. [LB338]

SENATOR GROENE: Three and a half percent for the prior year increase more than three, that's just on the income portion, not on the valuation portion, right? It's on everything? [LB338]

RUTH SORENSEN: It's on the valuation portion, right. [LB338]

SENATOR GROENE: The entire valuation. [LB338]

RUTH SORENSEN: Well, that...but it's for... [LB338]

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SENATOR GROENE: That's unconstitutional then. [LB338]

RUTH SORENSEN: No, what we're going to be doing is we're going to be going through the income production process. [LB338]

SENATOR GROENE: Uh-huh. [LB338]

RUTH SORENSEN: We're going to be calculating the income. And then when we get to the three years' average, the sales, we're going to be looking at the majority land use of those sales in that county. So we're going to be looking at the land, that 3D, and then we're going to be applying a productivity index to that 3D and adjusting it a percentage up and down to the better ground or the least good ground. [LB338]

SENATOR GROENE: It's on... [LB338]

RUTH SORENSEN: And so it's going to be uniformity because we are going to be using commodity prices. [LB338]

SENATOR GROENE: So land goes up in a county by a thousand bucks across the board. I mean it went from \$5,000 to \$6,000 because there was ten land sales, all right? [LB338]

RUTH SORENSEN: Sure. [LB338]

SENATOR GROENE: You're not going to allow it to go up \$1,000? [LB338]

RUTH SORENSEN: What we'll do is we'll calculate the income potential on that ground and determine what the average income is, the gross income, and apply that, the productivity index, and the cap rate. That if it's selling, if there's sales that are showing that 3D went up \$1,000, that will be in the factor. That will be in the calculation. [LB338]

SENATOR GROENE: So it won't...the land won't only go up from \$3,000 to \$3,090, 3 percent or whatever. It will actually go up the 1,000 bucks on average. [LB338]

RUTH SORENSEN: No. [LB338]

SENATOR GROENE: I mean if it went up \$1,000 three years in a row on a three-year average. It will only go up \$90? It will max out 3.5 percent over the \$3,000 before? [LB338]

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RUTH SORENSEN: It's going to be the state aggregate total of 3.5 percent, not the individual parcels. [LB338]

SENATOR GROENE: Oh, all right. So it's going to be... [LB338]

RUTH SORENSEN: It's the state aggregate. [LB338]

SENATOR GROENE: ...like that other one was. And also, I don't understand why rents would have any play in this because the rents are a cost. If the one farmer owns the land and farms it, he doesn't have a rent expense. He has his property taxes. He has his improvements. He has his land payment. And then the other person who rents it, that rent covers that property taxes and those land payments. So I don't understand why rent would even play into this. [LB338]

RUTH SORENSEN: Well,... [LB338]

SENATOR GROENE: Because you don't know who farms it because the renter don't pay the taxes. The owner pays the taxes. [LB338]

RUTH SORENSEN: The rent is going to come into it by the average in the region, meaning the landlord share. And so the landlord's...what we were estimating here is 35 percent; that the tenant is going to have 75 percent of the expenses, the landlord is going to have 35 percent of the expenses. [LB338]

SENATOR GROENE: What difference does it make? If who owns the land is paying the property tax, who farms it makes no difference. Because if you're the owner of the land, you're farming it. And if you're not, you're renting it. The rents have nothing to play into it. It's the income potential of that land. Rents have nothing to do with it. Rent expense is... [LB338]

MAN FROM AUDIENCE: They have everything to do with it. [LB338]

SENATOR GROENE: Well,... [LB338]

ANOTHER MAN FROM THE AUDIENCE: If you didn't farm that ground, you rent it. (Inaudible). [LB338]

SENATOR SMITH: Okay. Just a moment. We'll be able to take that in testimony because we can't...we need to get that on the record. [LB338]

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RUTH SORENSEN: The rental is an expense for the person paying, because oftentimes what will happen is it's the renter that's paying the property taxes. [LB338]

SENATOR GROENE: I understand that. But then the person farms all his own land. He has the expense of his property taxes plus if he's making land payments, which isn't in this, all right? So then if it's rented, there's another added expense on to that land just because it happens to be rented? [LB338]

RUTH SORENSEN: Well, again, it depends on who is...what the agreement is, who's paying the property taxes. And we go to the landlord's share then when there's renting because the renter is going to pay the majority of the expenses. [LB338]

SENATOR GROENE: But the property tax bill goes to the owner, not the renter. [LB338]

RUTH SORENSEN: And then the...oftentimes when you have something like that, like improvements on leased land, then the owner will increase the rent or cover that property tax. [LB338]

SENATOR GROENE: Yes, so it's covered in the rent. [LB338]

RUTH SORENSEN: It's covered in the rent. [LB338]

SENATOR GROENE: All right. But the tenant does not pay the property taxes. [LB338]

RUTH SORENSEN: In most cases, unless there's an agreement otherwise. [LB338]

SENATOR GROENE: You know, I'm starting to think, Lydia, your 65 percent was the answer. This...I mean it's not your fault, Ruth. This is... [LB338]

RUTH SORENSEN: This is a more fair way of ensuring uniform and proportionate values. [LB338]

SENATOR SMITH: All right. Senator Schumacher. [LB338]

SENATOR SCHUMACHER: Thank you, Chairman Smith. And thank you for the testimony. Just a couple of questions: Is this ever reconciled with reality? Parcel after parcel in an area sells for \$10,000 an acre. This formula produces a higher or lower value than \$10,000. At any point is

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it reconciled to what the land is actually bringing in arm's-length transactions and we come back out of the formula to reality? [LB338]

RUTH SORENSEN: We're going away from a market approach. [LB338]

SENATOR SCHUMACHER: Okay. [LB338]

RUTH SORENSEN: We're going to an income approach. So it's not going to be...if your reality is the market approach and the sale price, we're going away from that. That's the current structure. [LB338]

SENATOR SCHUMACHER: Okay. And so from what it actually would bring at an auction, this could be higher or lower. [LB338]

RUTH SORENSEN: Absolutely. It's the income potential of the land. [LB338]

SENATOR SCHUMACHER: Okay. Now...and the income we restrict to just agricultural production. If you could...are producing a lot more income because there's gold found on the property, that's not counted. [LB338]

RUTH SORENSEN: Well, that, again, there's flexibility for the county assessor to change the income levels if there's gold or oil found. The county assessor is going to have a range of income for those parcels and they can...and they would create a market area for that area where there's gold or oil and have the higher values. [LB338]

SENATOR SCHUMACHER: And the unrecognized capital gains in a parcel with the fact... [LB338]

RUTH SORENSEN: No. [LB338]

SENATOR SCHUMACHER: ...that one day is not considered at all. [LB338]

RUTH SORENSEN: We don't go into capital gains. [LB338]

SENATOR SCHUMACHER: Okay. So the very fact that that land for its owner may produce \$10,000 an acre in income at some point in its existence, not considered. [LB338]

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RUTH SORENSEN: This is based on the soil capability potential. [LB338]

SENATOR SCHUMACHER: And how does that differ from what you're doing already where you look at a piece of land, you say, well, this is...this type of quality of soil we're valuing it more and this quality of soil we're valuing it at a little less because it doesn't produce much grain? How is this different? [LB338]

RUTH SORENSEN: Well, what it's going to do is the county assessor will still have that capability of seeing, okay, this had a well and it no longer...the well has been deactivated so it's irrigable. They can use a lower income potential on that type of parcel, knowing that there's not water being put on it right now but it remains irrigable. And so the county assessor is still going to have that flexibility of saying this is a better soil over here so it's going to have the income range that they apply. [LB338]

SENATOR SCHUMACHER: Looks like we found something more complicated than TEEOSA. (Laughter) Okay. [LB338]

RUTH SORENSEN: Income approach, it's the income approach. [LB338]

SENATOR SMITH: Thank you, Ms. Sorensen. Again, it is a complicated matter. I think you've done a very good job of trying to answer our questions for us. [LB338]

RUTH SORENSEN: Thank you. [LB338]

SENATOR SMITH: I appreciate the line of questioning. [LB338]

RUTH SORENSEN: Thank you. [LB338]

SENATOR SMITH: So now we're going to move into the proponent phase and we're going to, again, try to keep it to around 30 minutes of your testimony in front of us. And welcome. Welcome. [LB338]

GREG IBACH: Thank you. Senator Smith and members of the Revenue Committee, my name is Greg Ibach, G-r-e-g I-b-a-c-h, and I am the director of Agriculture for the state of Nebraska. I'm here today to testify in favor of LB338. I would like to thank Senator Brasch for introducing this legislation. Governor Ricketts and I have heard from farmers and ranchers on the importance of passing much-needed property tax reform. These farmers and ranchers share examples of

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valuation increases in recent years in excess of 200 percent. Due to the fact that local taxing entities have not lowered mill levies, corresponding real estate taxes have consequently increased excessively. Unfortunately, farm incomes have experienced severe cyclical downturns in the last three years. This year, Nebraska farmers and ranchers are experiencing drastically lower net farm incomes. According to USDA, net farm income will fall from its recent high of \$7.5 billion in 2013 to a projected \$4 billion in 2016. This represents a nearly 46 percent decrease in income for farmers and ranchers. Agriculture is Nebraska's number one industry. And property tax reform, as proposed in LB338, is critical for the long-term viability of the industry. As we continue to discuss property tax issues, it is important to take a long-term view. If we are going to make progress on addressing high property taxes, we need structural reform. LB338 represents major structural reform that will provide long-term certainty to property taxpayers that the property taxes assessed against ag land are related to income production. Farmers and ranchers have been asking for a property tax system based on income rather than our current market assessment model for decades. Making the structural changes to add income potential model recognizes land as a primary resource for agricultural producers and applies the property tax burden in proper proportion to the income that the land is capable of generating. Property taxes should reflect the real estate's productive ability, and that is exactly what this proposal accomplishes. This income potential base model is already in place in Midwestern states with ag intensive economies like Iowa, Kansas, North and South Dakota, Wisconsin, Illinois, Indiana, and Ohio. LB338 will allow us to be competitive with our neighbors. I ask for your support in enacting LB338 this year, and would be happy to try to answer your questions. [LB338]

SENATOR SMITH: Thank you, Mr. Ibach. Senator Friesen. [LB338]

SENATOR FRIESEN: Thank you, Chairman Smith. Thank you for coming, by the way. One of the comments you made right at the end there is you wanted to make sure we're competitive with our neighboring states. So with Iowa, are their property taxes around \$18 an acre? [LB338]

GREG IBACH: So some of the examples that I've heard, anecdotally, shared with farmers that have land on border with states that do use the income approach is the difference between maybe paying \$70 or \$80 an acre in Nebraska and maybe paying in the high \$20s or \$30 an acre in the neighboring state. [LB338]

SENATOR FRIESEN: Okay. So will this bill eventually get us there? [LB338]

GREG IBACH: So it will get us to an income relationship on the property taxes. Whether or not, based on when we're starting it now, it gets us actually equal to what neighboring states do, I'm not...I wouldn't be an expert to answer that question. [LB338]

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SENATOR FRIESEN: So if we started this seven years ago, or eight, it would do a real good job, but we're starting on the high end trying to work down. Would that be a fair assessment? [LB338]

GREG IBACH: Yes, there's probably some truth in that calculation, exactly. [LB338]

SENATOR FRIESEN: All right, thank you. [LB338]

SENATOR SMITH: Senator Harr. [LB338]

SENATOR HARR: Thank you, Chairman. You know, our economy is based on cheaper, faster, better, simpler. Not sure this is simpler. You own farmland, don't you? [LB338]

GREG IBACH: Yes. [LB338]

SENATOR HARR: Okay. Can you explain to me how you would value your farmland based on this bill? [LB338]

GREG IBACH: So, you know, as the Property Tax Administrator explained, when you look at your assessment...how they go about assessing the value of your farmland, it's fairly complicated because you could have lots of different soil types within one farm... [LB338]

SENATOR HARR: But your land... [LB338]

GREG IBACH: ...with different productive ability, and mine would have the same thing. And so depending upon calculating the productive ability of each soil type, that would blend into the matrix to value your farm. And, yes, it would be somewhat complicated. [LB338]

SENATOR HARR: So let me put it this way, we didn't do the little yellow cards this year. But let's just pretend we did. All right? So you get your little yellow card and you say, oh, my gosh, this value is so wrong. Are you going to be able to know that just looking at it? Because you're going to have to know the formula, you're going to have to know everything. I can know market value; I can look at that and say, nope, wrong; or yep. You know what, I bought my house 12...or 19 years ago, and this year it just went up to what I bought it for. This is about right, probably a little low. Or do I look at it and go, wait, honey, can we get the calculator out, let's see if this is right? [LB338]

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GREG IBACH: So I think the first year there will be a learning curve for farmers and ranchers. The farmers and ranchers are pretty sophisticated. You have to be pretty sophisticated to be able to run a farm today and, you know, calculate your income and expenses and try to make a profit. I think farmers and ranchers over time will be able to figure out the relationship between the income-producing ability of their farms and their assessed values. [LB338]

SENATOR HARR: But can you do the formula and figure out where the flaws are? That's the question. I mean, you may say this...mine went up 3.5 percent, never 4, but went up 3.5 percent, but my income didn't go up 3.5 percent. I mean, if I...if my income goes down, we're all hearing, based on a ten-year average, incomes are going to be down over the ten-year average. Right? So do I look and say, well, oh yeah, we got to take into effect that we finally got rid of the tail, we finally lost 2013, you're right. Even though I'm actually making more money this year, my income went down because we lost that tail. [LB338]

GREG IBACH: I think that just as today on the sales approach, farmers and ranchers that are concerned about their valuation go in and work with their assessor and ask the assessor to help them walk through how they came up with the value that they assessed the property at today. I think that same discussion would happen in the future to help them understand how that went, how that was calculated, and then they would make their decision on whether or not they felt it was fair based on that. [LB338]

SENATOR HARR: Would that count as an expense figuring out what your expenses are?
(Laughter) [LB338]

GREG IBACH: Well, I would say, just like in any other business, if you have to hire a professional to help you, then it probably would be considered an expense. If you did it with your own sweat, blood and tears, it would not be. [LB338]

SENATOR HARR: All right, thank you. [LB338]

GREG IBACH: All right. [LB338]

SENATOR SMITH: Senator Schumacher. [LB338]

SENATOR SCHUMACHER: Thank you, Chairman Smith. One quick question: In the 60-some counties which have very little urban population, nobody to shift the taxes...property tax burden to, isn't any reduction in value going to have to be offset by an increase in levy if local government is going to keep the lights on? [LB338]

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GREG IBACH: Well, right now, we have levy limits in place in some areas to guard against that, that shift. But the Governor has also built in to his, for schools especially, has built into his proposal that in 2019 there would be extra money placed into the TEEOSA to help offset any decrease in land that is project...land values that are projected or tax revenue that are projected. [LB338]

SENATOR SCHUMACHER: But there's a lot of local governments that don't get TEEOSA. That's just schools. So what do they do to keep the lights on? [LB338]

GREG IBACH: So that's also part of the reason why I think that the Governor set the implementation date for 2019 to be able to allow local entities to be able to foresee what is coming in the future and make...and adapt and make adjustments ahead of time. [LB338]

SENATOR SCHUMACHER: So then they throw the light switch off? [LB338]

GREG IBACH: Well, hopefully, they would adapt and make adjustments and hold their budgets. Right now, if we look back on the past few years, when valuations have increased 200 percent and mill levies have not gone down, I feel farmers and ranchers have been taken advantage of in those areas. [LB338]

SENATOR SCHUMACHER: But in some, not to be argumentative, but in some areas they have behaved themselves and they have reduced the values and this...those that have behaved themselves or reduced the values, this will hit them harder, where the ones that juiced up their levies, they've got cushion to play with now. [LB338]

GREG IBACH: Theoretically. [LB338]

SENATOR SCHUMACHER: Theoretically. Thank you. [LB338]

SENATOR SMITH: Thank you, Mr. Ibach. [LB338]

GREG IBACH: Thank you. [LB338]

SENATOR SMITH: We now move to the next proponent of LB338. Welcome. [LB338]

DENNIS FUJAN: (Exhibit 2) Thank you, Senator Smith. Thank you, Revenue Committee. My name is Dennis Fujan, D-e-n-n-i-s F-u-j-a-n. I'm currently the president of the Nebraska Soybean

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Association. But I'm here testifying in behalf of the Nebraska Agriculture Leaders Working Group which is representing a group of interests in regard to LB338. The Agriculture Leaders Working Group is made up of elected leaders of several of Nebraska agricultural organizations who collectively represent thousands of Nebraska farmers and ranchers. Our group includes leaders from the Nebraska Cattlemen, the Nebraska Corn Growers Association, the Nebraska Farm Bureau Federation, the Nebraska Pork Producers Association, the Nebraska Soybean Association, and the Nebraska State Dairy Association. Collectively, we have outlined a series of guiding principles that identify what we believe should be the focal point for evaluating proposals as it relates to property tax reform. Those principles are relevant to the discussions this committee will have on LB338 and several other bills that will come before you this session. These principles serve as the foundation for how our collective interests will evaluate legislative measures related to property tax reform this session. I've provided a copy of these five principles for your review and I would like to read them into the official record for your consideration as you evaluate today's bills and others related to tax reform. Number one, tax reform, whether through legislation or ballot initiative, should seek to have a more balanced tax system to fund government services and education and benefit all property owners, including agriculture, residential, and commercial property. Collections from property, sales, and income tax shall share the burden of no more...with none of the three individually exceeding 35 percent of the tax liability. Agricultural property owners currently pay a disproportional amount of the total property tax liability. All future property tax relief produced at the state level must seek to reduce this proportional share. Tax reform...number three, tax reform should encourage fiscal responsibility and be revenue neutral. Actions to achieve such measures may include new tax sources or modify existing revenue sources to provide dollar-for-dollar reductions in property taxes. Number four, reform must ensure adequate funding for high-quality education for Nebraska students but reduce the reliance on property taxes for educational funding. And number five, tax reform must provide fiscal restraint in government spending, including budget growth limitations. Today, several members of our group will testify in support of LB338. Because of its efforts to improve the way in which agriculture land is valued, you will see that LB338, as drafted, does not, however, meet the principles outlined above as it relates to property tax reform, a collective goal of the Agriculture Leaders Working Group. With that said, we look forward to the opportunity to come before the committee on future bills that do meet the principles as outlined to secure meaningful property tax reform. And we look forward to the opportunity to work towards securing meaningful property tax reform this session. Thank you for your time and attention. And if I can answer any questions, I will try. [LB338]

SENATOR SMITH: Thank you, Mr. Fujan. Senator Harr. [LB338]

SENATOR HARR: Thank you for coming and I appreciate your outline...of your five points. My only question is you say you're revenue neutral. What does that mean to you? [LB338]

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DENNIS FUJAN: It means that if you reduce one revenue source, another revenue source has to increase to make up for it or else you have to reduce spending. [LB338]

SENATOR HARR: Okay. Thank you. [LB338]

SENATOR SMITH: Thank you again for your testimony. [LB338]

DENNIS FUJAN: Thank you. [LB338]

SENATOR SMITH: Next proponent. Mr. Heidemann. [LB338]

LAVON HEIDEMANN: Senator Smith, members of the Revenue Committee, my name is Lavon Heidemann, L-a-v-o-n, Heidemann, H-e-i-d-e-m-a-n-n. I first want to thank Senator Brasch for introducing this; for the Governor for bringing this idea up and working on it very hard. I know it's not been easy. I know it is complicated, it is complex. I came up here, I never write anything down, and I was...had something in my mind what I was going to say and Senator Friesen said something, so I kind of changed everything around after that. I'm not here representing anybody but myself today, and my boy, Bryan, who just came back to the farm. He's 25 years old. We got two grandkids from Bryan and Carly (phonetic) who are starting to farm. Luke (phonetic) is a year and a half, and Emmett (phonetic) is 3 months and I'm here for them more than anybody else. And you made the comment that this isn't going to help us, you and I. It won't. I agree with you 100 percent, to a point, but I'm dedicating the rest of my life to make sure that people like Bryan and Luke and Emmett have an opportunity in farming. And I'm convinced that LB338 will do that. And you're 100 percent right that if we would have been...you'd be able to say if you would have had this in place ten years ago, we wouldn't be here today. And it might not happen in our lifetime again, but it will happen again. And that's going to help the Bryans and the Lukes and the Emmetts make sure that they're not in the same position that we are. And I think that's so very important that we look to the future, and this bill is the future. So I encourage this committee to work on it. I encourage the Legislature to work on it. If you want to look at the present, you can go to Section 7 in this bill and where it says from 60 to 75 percent, you run that from 50 to 65 percent, it will help you and I right now. And I think maybe that discussion needs to be had, too, because you help the present and you help the future, because we are in a situation right now where there are a lot of people hurting and they could use any help that they possibly can. I know this is a complicated and complex bill, but Illinois, Iowa, Kansas, South Dakota, North Dakota, and other states do this. And if their Department of Revenue is smart enough to get this done, I have all the faith in the world that Ruth Sorensen and our Department of Revenue will be able to figure this out over the next two years so that when they go down the road, we're going to have this somewhat down pat or down pat. Thank you very much. If you've got any questions I will try and answer them. [LB338]

SENATOR SMITH: Thank you, Mr. Heidemann. Senator Friesen. [LB338]

SENATOR FRIESEN: Thank you, Chairman Smith. Well, I agree with what you're saying. This is a start to me. But if we don't have meaningful property tax relief quicker, I'm worried that generation won't be there. That is our problem now. And that's my focus; that's been my focus and will be my focus. So I mean, I look at this and I think, yes. In my lifetime, this is the only time I will see a runup in land prices like we've seen. I think each generation gets to visit it once. And if my next generation isn't on the farm to see it, it won't matter to them. So until we kind of address, I guess, the immediate crunch that there is, I still have a lot of work to do. But I do appreciate your comments. [LB338]

LAVON HEIDEMANN: Can I comment on it? [LB338]

SENATOR FRIESEN: Yes, you may. [LB338]

LAVON HEIDEMANN: I understand that. This is a part of the solution, not the total solution. You mentioned will this put us where Kansas is going to be. When I was in the Legislature, I looked at one time, and if I remember the figures right, they was valuing their land at 28 percent. So in order for us...we can use this same thing, because they use this same process, but you have to change. You can take two plus two and you get four. If you take three plus one you still get four. So you have to change your sum to get us closer to what other states are doing. But I believe in this process because it gets back to the income base, what you actually are getting off the land instead of the wealth, because just because you have wealth doesn't mean you have income. [LB338]

SENATOR FRIESEN: I agree. Thank you. [LB338]

SENATOR SMITH: Senator Harr. [LB338]

SENATOR HARR: Thank you. And just because you have income doesn't mean you have wealth, so maybe we should get rid of the income tax. Um, it is good to see you, to a point, Mr. Lieutenant Governor. (Laughter) Always a pleasure to see you, Mr. Lieutenant Governor. I'm kidding. But I want to follow up on what you said because it is base times rate, right? That's...if one thing I've learned in this committee, it's base times rate, base times rate, base times rate. This addresses the base. Right? The problem is, three plus one equals four; we lower it to two, that three to a two, it becomes two plus two equals four. Is the problem the base? Is the problem base and rate? Or is the problem that maybe we have too many services relying on property taxes to

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fund them and maybe we need to switch that so that we can get property tax for everybody?
[LB338]

LAVON HEIDEMANN: In my opinion, in my opinion, you was correct on each thing that you said. (Laughter) [LB338]

SENATOR HARR: It's a pleasure to see you always. (Laughter) [LB338]

LAVON HEIDEMANN: I think there's work to be done on the base, on the rate, and who actually are the entities that benefit from property tax. I think we should have that bigger picture and look at that. [LB338]

SENATOR HARR: Okay, thank you. [LB338]

SENATOR SMITH: Thank you, Mr. Heidemann. I think, you know, to go back...I know you spent a lot of years on the Appropriation Committee, you understand the complexities of our budget, looking at the finances, and of course the finances in farming is very complex as well. And I think you would be the first one to throw the flag if you saw something here that could not be achieved. And I think, from what I'm hearing from you, is that going forward this should be a part of the solution; this is not the solution in its entirety. Yes, indeed, there needs to be some more immediate changes made, but this should be part of the equation going forward. [LB338]

LAVON HEIDEMANN: It's a heck of a start. [LB338]

SENATOR SMITH: All right. [LB338]

LAVON HEIDEMANN: Heck of a start, something to build on. And you can tweak things inside of this bill to make it better and more immediate. [LB338]

SENATOR SMITH: All right. Thank you very much for your testimony. [LB338]

LAVON HEIDEMANN: Thank you very much. [LB338]

SENATOR SMITH: Welcome. [LB338]

AL JUHNKE: Thank you. Mr. Chairman and members of the committee, my name is Al Juhnke, A-l J-u-h-n-k-e. I'm the executive director of Nebraska Pork Producers. I'm going to quickly take

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a couple different tacks on this. First of all, Senator Brasch and Governor Ricketts, I'm amazed that you've sat here all day long. I really appreciate that. Not every Governor would do that, I can assure you, and so it's noticed and appreciated. And to the author and to the members, this is a good bill. This is a very good bill and one that we support as pork producers, but one that agriculture should generally support because...and just to calm a little bit, in another life I was a farm real estate appraiser. So I can assure you that everything the department is doing is very common and very well put together and by formula will work very well using the USDA numbers, using averages for a county or area on expenses. It's all going to work really well. It's a good bill. You should be asking those questions. You asked some very good questions. And you're going to have to take some time to get those answers, Mr. Chair and members, and get comfortable. But this is a good bill. Okay? And there's lots of resources. A lot of you get CSG stuff. I looked up 2012, Dr. Orr did an article on all the states and they broke it down. And the issue at this bill, it's good, it's going to take away those highs and lows. Right? So that neighbor sale that bought a 40 and paid \$2,000 more an acre because it adjoined their land, that won't be counted anymore. The 1031 sales will be out, they're outliers, they're gone. So this will level that out, especially over ten years. But as pork producers, and as members of the Ag Leaders Working Group, we also want to state, and I think the Governor was eloquent in the way he put it, this bill is not exclusive to the other things you're working on. This is a part, like we've heard from the other testifiers, this is a start or a part of the total solution for property taxes. Senator Friesen, you had a very good bill in Education the other day, taking it down to 20 percent. That's immediate relief, which is what we need. This is long-term reform which is why it's good. We're looking beyond the end of our nose with this bill, Senator Brasch. That's why we like it. It's long term and it will stabilize things. But now we have to put it together with things like you have, Senator Friesen. Or, you know, Representative Erdman has a bill similar to this, but he looked at different ways to average, maybe not ten years. I think his has an eight-year Olympic average. So you throw out that \$8 corn year, right? Or you throw out the year when there was a drought on the dry land in his bill. So there are other ideas. Take them and put them in and it will even make this bill better. But long term, we need not only reform, but short term we need relief and we need it immediately. It can't wait for the next generation, which this bill will help the next generation, and somewhat, in small ways, the current farmers. But again, I appreciate that this isn't exclusive of other things. This is a good bill. This is one you should support. And this one is, like they said, if you look at CSG and the Governors Association and others, there's a lot of data on how other states do this. And you do have some choices on how you do cap rates and how you do other things. But overall, you want to use this method as opposed to the market approach because it will very much stabilize ag land values across the state. Thank you, Mr. Chair and members. [LB338]

SENATOR SMITH: Questions? Senator Friesen. [LB338]

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SENATOR FRIESEN: Thank you, Chairman Smith. I guess...I'm not opposed to the bill. I need to learn how it's going to work and I think it's a fair enough direction to go. But in all my years, I am not really the one that has ever questioned the value of the land. In our area, I think the assessor did a really good job. And I think there was some discretion used; I think they were able to do that in taking out some of those highs and lows. But when you looked at the value of the land, everybody went, well, you know, that's what it's bringing, they understood it. And my whole focus has always been how we fund K-12. It's where the money goes and the tax that you pay. It's hard to argue with the value. But I'm very open to looking at this. I'm not opposed to it. I do think it's a good start and it puts us on a level playing field with other states. But thank you for coming in. [LB338]

AL JUHNKE: Yeah, you bet. [LB338]

SENATOR SMITH: Senator Harr. [LB338]

SENATOR HARR: Thank you. And again, I'm going to follow that path. First of all, just to clarify the record, USDA is not mentioned in the bill. So that's not a part of the bill, that was something that was brought up, but it's not a part of the bill. So that's part of some of the issues I had with the bill. We have some issues with it. But the other thing I will mention is that if the income approach is a better way of coming up with value and taxing, I'm not quite sure why we go 60 to 75 and don't go back to a dollar if it's a better way of determining what the value is of that property. Because the argument is, we do 75 because, well, there's a little...it's hard because you have the 1031s, you the have the arm's-length sales or not enough arm's-length sales or not enough sales, period. If this is the best way, why don't we go back to the income approach and then do it at a dollar? Why are we lowering it to 60 to 7...first of all, no one has explained to me why we have to have such a wide variation, which I got a real problem with. But then no one has explained to me why it should be less than 75, why it should be back to a dollar then. [LB338]

AL JUHNKE: Mr. Chair and Senator Harr, good questions. First of all, USDA is in the bill. I only know because I read it before I came in here and I happened to catch it. It's on page...I know at least once on page 6, line 26, and in another place. I think it mentions the statistical service somewhere in there, too, but I don't have time to look through it right now. But they do reference it in the ten-year averages. [LB338]

SENATOR HARR: For the ten-year average, yeah, but not for the expense side. [LB338]

AL JUHNKE: And that's for the expense side and... [LB338]

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SENATOR HARR: Yeah, not the expenses, yeah. [LB338]

AL JUHNKE: Right. Right. But I think you're hitting on a good question, because you're right. You could value land...I mean, there's a market approach, there's the income approach, there's the cost approach. If you have buildings you use a cost approach. And all three of them should check and come in pretty close to each other, if you're doing decent work in your appraisal work. There are checks on each other. But the income approach, I think, the main reason they're using it is to level that out, to equalize land values. And again, there's different ways to do that, too. These are all the things you have to sort through as a committee. Some states have specific crop equivalency ratings for every field out there: 1 is worse; 100 is best. And you can rate a field somewhere between 1 and 100. They only do eight classes here in Nebraska. So that's something we have to sort out or work closer with NRCS to even home that in more for your particular farm. But the cap rate is a worry from my standpoint, how that's set. And that's set different in other states, too, by the way. The way they're doing it is through the market approach, actually looking at sales, capitalizing it, using that then back on the income approach. That's the way I would do it. But some states take the Federal Reserve and ask what's a five- or three-year average of farm loan rates. Farm loan rates are 4.5 percent over five years; that's what they would set their cap rate at to be consistent so it doesn't change. Here's there some flexibility, I think, on the local level to adjust those rates to fit into, like you were saying, to fit it for certain 75 or 60 or whatever. That's a little more troubling because now you're getting the flexibility to make something fit. You're not necessarily taking it right out of the market. And so, you know, the long story short that you keep asking, and you're right, it's what's on our property taxes. You can assess and appraise and do anything you want to them, but you have to decide...and we all have to decide as citizens, you're representative of our farmers out there, how can we better...do a better job of funding things that are dependent on property tax. Is there a way to move those? And, Senator Friesen, obviously, would move with his bill...I keep going back to your Education bill, because you had...he had immediate relief on his bill the other day in Education, but that would have required an investment from the General Fund of the state to pick up. Otherwise, it's a balloon, right? Yeah, you lower property taxes, now commercial and residential bounce up. You got to...nothing is free, you've got to add money to...it's the only place where the state has to spend to lower taxes. I don't know if I was succinct enough. [LB338]

SENATOR HARR: That makes sense. I appreciate it. Thank you. [LB338]

AL JUHNKE: Yeah. Yeah. [LB338]

SENATOR SMITH: You're absolutely right. Thank you, Mr. Juhnke, for your comments. [LB338]

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AL JUHNKE: All right. [LB338]

SENATOR SMITH: We'll go to the next proponent. [LB338]

AL JUHNKE: Thank you, Mr. Chair and members. [LB338]

SENATOR SMITH: Welcome. [LB338]

STEVE NELSON: Thank you, Senator. My testimony begins saying good afternoon. I might need to revise that. [LB338]

SENATOR SMITH: That's right, it's now evening. [LB338]

STEVE NELSON: (Exhibit 3) My name is Steve Nelson, S-t-e-v-e, Nelson, N-e-l-s-o-n. I'm the president in the Nebraska Farm Bureau Federation and am here today to present testimony on behalf of the organization. I'm also a farmer from Axtell where I farm with my son and raise corn, soybeans, and hybrid seed corn. I want to say thank you to Senator Brasch for the introduction of this bill, and thank you to the Governor for your continued interest in working on property tax. For many years, our members have adopted policy supporting the use of an income-based approach to valuing agricultural land for tax purposes. They've done that because they believe an income approach gets us closer to taxing ag land based on its true production capability. It also is a way to minimize outside influences that can drive ag land values far beyond the lands' actual production capability. With that said, LB338 is a mix of income and market approaches to valuing agricultural land. Under the bill, market values still will be used to determine uniformity. It also gives the Property Tax Administrator a great deal of latitude in setting income tax ranges and capitalization rates. In short, LB338 is not equivalent in its present form to what neighboring states are doing to value ag land and it will not provide the same results. At the end of the day, this is an agricultural land valuation bill, not a bill which fundamentally fixes the property tax problem. Nebraskans are asking for property tax reform that better balances the revenue sources used to fund government services. We rely far too much on property taxes in this state. We now pay the seventh highest property tax in the nation. Property taxes count for almost half of the combined collections of property, state sales, and state income taxes. That's too much. We need to bring that number down and better balance the burden. It would take, roughly, a billion dollars to rebalance property, sales, and income taxes. It's our goal to secure, roughly, \$600 million in property tax reductions in this legislative session. Based on our calculations, that would bring property taxes' contribution down from this nearly half of the total, 48 percent or so, to roughly 40 percent of the combined sources of revenue. That's a better balance and that's meaningful. Nebraska Farm Bureau is about finding solutions. In the weeks to come, we will be back to testify on several bills that take significant steps toward solving the

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property tax problem this session. I've identified these bills and they are attached to my testimony, which I believe went around. We're looking for revenue neutral solutions that rebalance our tax burden. And to be clear, when I say "neutral" I mean the measures that ensure that we are not increasing the aggregate tax burden on Nebraskans but rebalancing our revenue stream between property, sales, and income tax. I see that the light is on. It's also important for the committee to understand that doing nothing on property taxes is equivalent to a tax increase. Over the last ten years, property taxes statewide are up 60 percent. That's a real increase and that's a increase on real Nebraskans. So in closing, I reiterate that Nebraska Farm Bureau supports the concept of valuing agricultural land on an income tax basis. We believe that LB338 needs significant work; a lot of that's been talked about, and we're certainly open to working with the committee and each of you, as well as the Governor, to make the bill better in that regard. So again, I want to make it clear that the committee should view LB338 as a measure that addresses...that does not address the underlying property tax issues in the state of Nebraska and we want to work with you and not only on this bill but on bills to come forward. I apologize for going a little long, but would certainly be willing to try to answer questions that you might have. [LB338]

SENATOR SMITH: Thank you, Mr. Nelson. Questions from the committee? Thank you for your testimony. [LB338]

STEVE NELSON: Thank you. [LB338]

SENATOR SMITH: So we've had good exchange of questions, Q&A going back and forth. I think we've uncovered a lot of good information with that. So I think we can go...make a couple more proponents on this...on LB338 before we move to opponents. Welcome. [LB338]

STEVE WELLMAN: (Exhibit 4) Thank you, Mr. Chairman, and good afternoon, committee. I'm Steve Wellman, a third-generation farmer from Syracuse. Steve is S-t-e-v-e, Wellman, W-e-l-l-m-a-n. I'm here today testifying as a Nebraska farmer that's concerned and frustrated with the current valuation system that we use here in the state of Nebraska on our ag valuations for agricultural land. I believe it's time for serious consideration to change Nebraska's approach to taxing ag land. The current process of valuing ag land based on market value for the purpose of assessing property taxes is flawed. A few farms selling in an area artificially inflate the value by not giving enough samples to reflect the true value of the neighboring land. We've heard about Section 1031, like-kind exchanges that can influence and over inflate the purchase of the valuations of land. And ironically, a lot of these like-kind exchanges are drive by urban expansion into prior agricultural land. Often these market values do not accurately reflect the true ability of the owner to operate a successful farm or ranch. My family has taken great pride over the decades of operating our land to maintain and improve the land and the buildings that

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we have. But every time we do that, we don't always see return from those improvements and the investments we make. But we do see an increase in valuation which results in an increase in property taxes. Our current market-based valuation seems to be a penalty to keeping your property at a high standard. I think that's a wrong approach. The income-based approach is better for determining taxation/valuation on agricultural land. An income-potential valuation will result in a better balance of valuation to the income the land is capable of generating. An income-potential valuation will eliminate the artificially inflated valuations that I mentioned caused by the issues I mentioned earlier. Often we talk about helping out young farmers in agriculture...or young people, yet our actions don't always reflect that. I believe adopting LB338 may be an example of actually doing something to help these young people. A property tax assessment based on the income potential of their land will provide a better opportunity than paying taxes based on inflated land sales in their area. When adopted, LB338 will certainly be a change in our approach to ag land valuations. While it is new to us, similar systems are being used in several other states and their past performance can surely be used to base our expectations. I believe income-based valuations will be an improvement for Nebraska farmers and ranchers while still providing funding for our schools, counties, and other taxing entities. I ask the members of this committee to support LB338. And I thank you for the opportunity and will answer any questions if you have any. [LB338]

SENATOR SMITH: Thank you, Mr. Wellman. Senator Harr. [LB338]

SENATOR HARR: Thank you, Mr. Wellman. [LB338]

STEVE WELLMAN: Sure. [LB338]

SENATOR HARR: Do you what percentage of sales are 1031, like-kind sales? [LB338]

STEVE WELLMAN: I do not know the percentage. And I do know that some of those are outliers and they are not considered. [LB338]

SENATOR HARR: Okay. [LB338]

STEVE WELLMAN: But some of them still are considered, and they are driven by...like I mentioned, some of them are driven by urban sprawl, taking out other ag land. [LB338]

SENATOR HARR: I'm looking at the Nebraska Farm Business Inc. and they have it...now,...I didn't get last year's, 2016, but they have it at less than 5 percent of all sales are 1031 like-kind. If the income is a better approach, cap rates is a better approach, and it better determines the value

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of the land, why are we doing it at 60 to 75 percent of the value of the land instead of 100 percent? [LB338]

STEVE WELLMAN: Well, I believe...and I don't know the exact technical procedures behind the bill, but I understand your question of...I think the real issue is the property tax that we're paying now are too high. We have to find a way to lower the taxes that are paid and the valuation is a part of that, like was mentioned earlier, and I realize that the levy can also and will play a portion of that...play into that. But looking at the valuations and using those valuations that are income based I believe is a more accurate approach to begin with than a market value that there just simply is not enough samples that are sold in farmland like there are in other...like housing and other areas like that. [LB338]

SENATOR HARR: Well, and I agree with you, and my property taxes are too high too. Why shouldn't I ask for 75...60 to 75 percent then? [LB338]

STEVE WELLMAN: I guess that's your prerogative to ask for that. I believe that many of the senators and the Governor has heard from agriculture and agriculture is a big percentage of the economic activity and development in the state of Nebraska; and agriculture, I believe, does need to have a...have you and your fellow senators take a look at how the valuations are determined and put a good-faith effort into lowering the property tax burden on our family farms. [LB338]

SENATOR HARR: Okay. What percentage of your gross expenses is your income tax? [LB338]

STEVE WELLMAN: They're fairly small. It's...of the gross receipts in a year? Is that... [LB338]

SENATOR HARR: Yeah. What percentage of your gross expenses are (inaudible)? [LB338]

STEVE WELLMAN: Oh, gross expenses. Um, probably 10 percent. [LB338]

SENATOR HARR: Okay. [LB338]

STEVE WELLMAN: I'm not exactly sure. [LB338]

SENATOR HARR: Okay. [LB338]

STEVE WELLMAN: I do know that property taxes rate right up there with the highest expense per acre that I have, along with seed and fertilizer. [LB338]

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SENATOR HARR: Okay. All right. Thank you very much; I appreciate it. [LB338]

SENATOR SMITH: Senator Friesen. [LB338]

SENATOR FRIESEN: Chairman Smith, thank you. What's the value you pay on your house, property taxes? What value do they use? [LB338]

STEVE WELLMAN: What value do they use? Based on sales. [LB338]

SENATOR FRIESEN: Is it 75 percent? [LB338]

STEVE WELLMAN: No, it's based on the 90 or whatever... [LB338]

SENATOR FRIESEN: So you're paying the same as Senator Harr. [LB338]

STEVE WELLMAN: On my residence, yes. [LB338]

SENATOR FRIESEN: Thank you. [LB338]

STEVE WELLMAN: Correct. [LB338]

SENATOR SMITH: (Crowd reaction) All right, all right, let's not do a tit for tat here. Senator Harr. [LB338]

SENATOR HARR: And your property tax is too high on your home as well, too, right? [LB338]

STEVE WELLMAN: Well, it's not as large of an investment as the real estate is actually. [LB338]

SENATOR HARR: All right. All right. [LB338]

STEVE WELLMAN: And there was a question earlier about the accumulated capital gains on the property. And that's true, there might be accumulated capital gains. It depends on when that property was purchased. But you can only realize those capital gains once it's sold. Once that property and farmland is sold, you no longer have your family farm. So I don't know that that

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plays any part in this whole evaluation of how we value property...ag property for tax purposes. [LB338]

SENATOR SMITH: Senator Groene. [LB338]

SENATOR GROENE: Thank you, Chairman. Where did you say you were from? [LB338]

STEVE WELLMAN: Syracuse. Otoe County. [LB338]

SENATOR GROENE: So are you in an equalized school district? [LB338]

STEVE WELLMAN: I'm sorry? [LB338]

SENATOR GROENE: Is your school district equalized or nonequalized? [LB338]

STEVE WELLMAN: I should know that. District 27, I know what the taxation level was this year and I know what it was three years ago, and it's up about 1.7 million. [LB338]

SENATOR GROENE: I admire farmers. I'm in ag and I'm a big supporter, if you follow me. But every farmer I know nowadays is (inaudible)...if you sit on an NRD board, you sit on a cemetery board, you sit on a rural fire department, you've sat on a county commission, you take your turn. Have you ever sat on a board? [LB338]

STEVE WELLMAN: I have served on the Nebraska Soybean Association board; I've served as a national leader on the American Soybean Association board, past-president... [LB338]

SENATOR GROENE: But you've never been on an elected board? [LB338]

STEVE WELLMAN: Currently, I am on a Syracuse Community Hospital...district hospital board that was elected. [LB338]

SENATOR GROENE: Have you ever voted for a tax increase on that board? [LB338]

STEVE WELLMAN: I've been there one year and we voted to leave the valuation request...or the tax request even. [LB338]

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SENATOR GROENE: What I'm getting at here, every dollar we collect in the state for taxes is spent. And on one side I hear my friends in agriculture say, I don't want to pay taxes. They sit on a board and they vote for tax increases, at the NRD, at the community college, at the school board, because they want good education, they want good NRDs. And what...some day we've got to understand there's a connection here and we've got to quit spending money. [LB338]

STEVE WELLMAN: I agree. [LB338]

SENATOR GROENE: Thank you. [LB338]

STEVE WELLMAN: I've had discussions with my school board members... [LB338]

SENATOR GROENE: You just happen to be the poor guy sitting in the seat when I finally said it. [LB338]

STEVE WELLMAN: That's fine. (Inaudible) [LB338]

SENATOR GROENE: Thank you. [LB338]

SENATOR SMITH: Thank you, Senator Groene. Mr. Wellman, thank you for your testimony. [LB338]

STEVE WELLMAN: Thank you. [LB338]

SENATOR SMITH: Next proponent. Welcome. [LB338]

CHRISTOPHER KUEHN: (Exhibit 5) Senators of the great state of Nebraska, my name is Christopher Kuehn, that's C-h-r-i-s-t-o-p-h-e-r K-u-e-h-n. I'm a fourth-generation farmer/rancher from Kearney County, Nebraska. I farm near Heartwell, Nebraska. I am the president of the Kearney/Franklin County Farm Bureau. I'm coming today to represent the farmers and ranchers I serve in Franklin and Kearney Counties. The purpose of my testimony is in support of LB338, the Nebraska Agriculture Valuation Fairness Act. As with many in the field of agriculture, my operation and the operations of those within the counties I am representing are experiencing a down trend in the markets. The crop and cattle markets that were recently at all-time highs have drastically dropped. As a result of high markets, land prices also have hit all-time highs. Although some of the factors to the increase in valuations have been the higher markets, the largest cause for high land prices has been purchases made by those who are outside the field of

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agriculture who have resources for purchasing that exceeds that of those who make a living from the field of agriculture. Our current system for setting property taxes is based on those land sales and valuation of the land. As a result, taxes on farm and ranch properties have increased significantly over several years. Primarily, this is due to increased valuations of our properties as a result of market-value valuations. Although we saw some record market prices during the same period, we are now seeing prices wane and our taxes continue to increase, creating a financial burden as we see profits turn into losses. I am not here to oppose property taxes; I am here to ask you to support LB338 which will change the valuation for our land from a market-based system to an income-potential based system. This system would use a ten-year average on yield and commodity prices to assess the income potential for the land as well as recognizing the income potential for each tract of land differs based on soil type, quality, and irrigation versus nonirrigation potential. A market-based system does not recognize limitations on a piece of ground. This system is a step in the right direction to bring farmers (sic) to the current property tax system...fairness, I'm sorry. I agree fully with those who say property taxes are too high and make it difficult to make a living, especially in low-price markets. I know many will say that this proposed piece of legislation will not bring property taxes down enough. However, this piece of legislation is a step in the right direction to make the system fairer, as well as to bring some relief to all of us in the field of agriculture. A first step, or any step, in bringing relief is a good one. I thank you for your time and would field any questions. [LB338]

SENATOR SMITH: Thank you, Mr. Kuehn. Senator Harr. [LB338]

SENATOR HARR: Thank you. So are you related to our fellow senator? [LB338]

CHRISTOPHER KUEHN: Yes, I am. [LB338]

SENATOR HARR: Well, I apologize. [LB338]

CHRISTOPHER KUEHN: Thank you. [LB338]

SENATOR HARR: My sympathies. So you were talking about a lot of property that was bought by people outside the area. [LB338]

CHRISTOPHER KUEHN: Yes. [LB338]

SENATOR HARR: And for what purpose do they purchase that property? [LB338]

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CHRISTOPHER KUEHN: In some circumstances, which we have seen in our own county, we have actually seen land prices driven up because a farmer is interested in the property and will actually have a family member help subsidize their ability to buy that piece of property, and have seen the property value climb to a higher value on an auction than what it normally would have brought. [LB338]

SENATOR HARR: Okay. But it's free market. And they're using the land to farm? [LB338]

CHRISTOPHER KUEHN: Usually. In the case, one of the people does, or else they rent the piece of ground out to another...to a member of the family. [LB338]

SENATOR HARR: Okay. So whoever is purchasing it is not giving out of good will; they're expecting a return on their investment. Is that correct? [LB338]

CHRISTOPHER KUEHN: You would think so. [LB338]

SENATOR HARR: I would think so, too. And so I'm not sure if it is above market value. I mean, market value, first of all, is whatever you want to pay for it. But they're purchasing it to make money off it. And they found a way to make money off of it. And so I'm not sure all that money coming in is a bad thing. They're still making the land profitable. They're finding a way to make a profit on it. [LB338]

CHRISTOPHER KUEHN: Possibly. The other thing you have to remember is that when that land is taken away from those who are farming in that area, that's a reduced income potential or reduced jobs for those people who are farming in that community as well. It is taken away from those people who also would have the opportunity to do it. [LB338]

SENATOR HARR: Or the other side of that is it frees up capital to invest more in seed or machinery because now they don't have to pay for capital to buy the underlying property. [LB338]

CHRISTOPHER KUEHN: Yes and no. Yes, it would increase some expenses...or ability to pay those expenses, but it also, if the land is not available to rent or to be purchased, you are limiting your income potential because you wouldn't be able to, obviously, farm the ground. [LB338]

SENATOR HARR: So the people purchasing the property are letting it lay feral? [LB338]

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CHRISTOPHER KUEHN: It has happened. [LB338]

SENATOR HARR: So for what purpose do they purchase it? [LB338]

CHRISTOPHER KUEHN: Sometimes you will see people who will purchase properties for the purpose of making it...well, create a refuge or something like that would be used...taken out of production then. [LB338]

SENATOR HARR: But it's their property. They can do what they want, right? [LB338]

CHRISTOPHER KUEHN: No, I would not disagree with you there. [LB338]

SENATOR HARR: Yeah. Okay. All right, thank you very much; I appreciate it. [LB338]

SENATOR SMITH: Senator Groene. [LB338]

SENATOR GROENE: Thank you, Chairman. Can anybody possibly go out and buy...a young farmer get a loan and buy a thousand acres and start farming and make it? [LB338]

CHRISTOPHER KUEHN: Conceivably, no. [LB338]

SENATOR GROENE: So when an established farm family, when they buy a quarter, they blend it with the other land that they already own and that quarter, probably, does not make money on it's own. It's long...you guys are in it for generations, aren't you? [LB338]

CHRISTOPHER KUEHN: Yes. [LB338]

SENATOR GROENE: So you buy a quarter of ground and you blend it with what you already have. That land that you already own helps pay for the new piece. Can you farm without buying a bag of seed corn? [LB338]

CHRISTOPHER KUEHN: You can't farm without buying a bag of seed corn. [LB338]

SENATOR GROENE: Can you farm without buying fertilizer? [LB338]

CHRISTOPHER KUEHN: You can't farm without buying fertilizer. [LB338]

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SENATOR GROENE: Can you farm without buying a tractor? [LB338]

CHRISTOPHER KUEHN: Yes. [LB338]

SENATOR GROENE: You've got a strong back. (Laughter) But anyway... [LB338]

CHRISTOPHER KUEHN: You could lease it. That's the difference, either lease or rent the piece of equipment. [LB338]

SENATOR GROENE: Anyway, can you farm without buying land and own the land? [LB338]

CHRISTOPHER KUEHN: You can if you rent the piece of ground instead of buying it. [LB338]

SENATOR GROENE: Can you farm without having land to farm? [LB338]

CHRISTOPHER KUEHN: No, you cannot. [LB338]

SENATOR GROENE: All right. So you buy land because you're investing it so that some day you can sell it and retire? Is it an investment to you or is it a means to make a living? [LB338]

CHRISTOPHER KUEHN: It is a means to make my living. [LB338]

SENATOR GROENE: All right. Thank you. [LB338]

SENATOR SMITH: Thank you, Mr. Kuehn. Senator Schumacher. [LB338]

SENATOR SCHUMACHER: Thank you, Chairman Smith. In that transaction where the land brought a premium, in the normal case in your area, who is the seller of that land? [LB338]

CHRISTOPHER KUEHN: The particular piece of land that I was referring to, it would have been an estate that was selling the piece of ground. [LB338]

SENATOR SCHUMACHER: Okay. And probably had been held in that estate for... [LB338]

CHRISTOPHER KUEHN: Several generations. [LB338]

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SENATOR SCHUMACHER: ...several generations, okay. And that cash that was received at the transaction, coming out of an estate, what kind of tax was imposed on that? [LB338]

CHRISTOPHER KUEHN: I have no idea, honestly. [LB338]

SENATOR SCHUMACHER: Well, if it's less than \$10 million, it would probably be zero federal estate tax, zero Nebraska state tax, zero capital gains tax. And probably about half of those heirs live out of state so all that money is leaving the state tax free, with minimal possible exception of a little 1 percent inheritance tax that goes to maybe the county roads or to offset other property tax at the county level. Is that the core of our problem? After leaving...that huge amount money leaves tax free. [LB338]

CHRISTOPHER KUEHN: There's always going to be a system where you...you're always going to have something that's going to leave tax free. You're always going to have that. I don't care what business you're in, you're always going to have that. That opportunity is there. [LB338]

SENATOR SCHUMACHER: Should we plug that hole rather than try to figure out how we squeeze the farmer a little tighter? [LB338]

CHRISTOPHER KUEHN: It is, but by the same token, we also have to look at...even for...in the situation of that estate, that piece of ground has been paid property taxes on for its entire use by that family. That family has been paying those property taxes; they've been paying income taxes off of that piece of property. They've been paying sales taxes in their local community. It's not tax free because it has been paying for taxes for years. So it is not leaving tax free. So in answer to your question, no, I don't think you should plug that hole because I think that piece of ground has already been taxed sufficiently prior to its sale. [LB338]

SENATOR SCHUMACHER: So your argument is then property tax is an incremental payment of what amounts to an estate tax? [LB338]

CHRISTOPHER KUEHN: I would say so, because it is part of...it is being paid for years. I personally am opposed to estate taxes. [LB338]

SENATOR SCHUMACHER: So if we look at that way, then the percentage of that property tax leg of the stool just suddenly got a lot shorter because it's not a property tax, it's an estate tax paid on an incremental basis. [LB338]

CHRISTOPHER KUEHN: But it's still a property tax. [LB338]

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SENATOR SCHUMACHER: Thank you. [LB338]

SENATOR SMITH: Thank you, Mr. Kuehn. Welcome. [LB338]

MICHEAL DWYER: (Exhibit 6) Welcome. And I officially have to amend my testimony because it says good afternoon. So good evening, Chairman Smith and members of the Revenue Committee. My name is Micheal Dwyer, M-i-c-h-e-a-l D-w-y-e-r. I'm a resident of Washington County, a small business owner, a volunteer firefighter, a past chamber of commerce board member, and a 12-year member of the school board of Arlington, Nebraska, including two years as president. I'm here today to testify in support of LB338. First of all, I want to thank Senator Brasch, that happens to be my own favorite senator, for introducing the bill, as well as Governor Ricketts, for their vision and resolve in working towards a more permanent solution to the problem of how we value ag land and by connection how we fund education, particularly in rural districts. As a taxpayer and a small business owner and a former school board president, I am convinced that LB338 offers a fairer way to assess ag land valuations, provides predictability for school districts which is so essential during budget planning, and most important offers sustainability. Our current system of valuing ag land for the purposes of property taxes offers none of those three things. It's not fair, it's certainly not predictable, and I don't believe that it's sustainable. While none of my interests are directly tied to agriculture, Nebraskans understand that the economy of our state is directly tied to agricultural producers. Currently, the relationship between school board members and the ag community is sometimes adversarial. We, both sides of that relationship, know that we tax and spend a lot of ag money in an effort to offer the children of Nebraska the best possible education. I believe that LB338 is an opportunity to change that relationship from adversarial to a partnership in which school districts and ag producers work together in our shared responsibility to educate our kids. Our current system is imbalanced and unsustainable and both sides know that. I believe that measured transition to an income potential based system provides ample opportunity for school districts to prepare for whatever changes might affect their district. LB338 gives balance and predictability to school budgets. You may hear testimony from some of the details needs to be tweaked. The Governor referred to that earlier and I support that. But I believe that the Nebraska Legislature should follow the vision, the courage, the fairness, and the sustainability shown in LB338 and advance the bill. Thank you for the opportunity to testify and I would be happy to answer any untechnical questions. [LB338]

SENATOR SMITH: Thank you, Mr. Dwyer, for your testimony, appreciate it. I see no questions. Thank you. [LB338]

MICHEAL DWYER: Thank you. [LB338]

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SENATOR SMITH: Appreciate your service in your communities. I know we've seen you here many times. Thank you. Welcome. [LB338]

SHANE GRECKEL: Thank you, committee members. For the record, my name is Shane Greckel, S-h-a-n-e G-r-e-c-k-e-l. I'll be representing myself today. First of all, thank you all to committee members for staying here this long and hearing as much as we can. And I encourage everyone to hear all Nebraskans that came down here that drove quite a ways. Thank you, Senator Smith, for hearing this. Thank you also, Senator Brasch; thank you, Governor Ricketts, for taking the lead on property taxes on ag land in Nebraska. As I stated before, my name is Shane Greckel. I'm a landowner from near Bloomfield, and I am also the immediate past-chair of the Knox County Farm Bureau. Today I am here to testify in support of LB338. Property tax reform is important, but is especially important for young producers such as myself, creating more predictability in valuations will help ensure that young Nebraskans like myself and others are able to succeed for years to come with the property tax issues. The combination of land prices, high taxes, low commodity prices present a barrier to individuals looking to start their own farming or practicing issues. I'd like to present a small example of the situation that I find myself in as a young producer in Nebraska. If we go back to when I started farming, around 2009, not that long ago, we find corn prices closing around \$3.15 locally, some lower than that. Today my local elevator is about \$3.20; break-even on my farm is \$3.50. Thirty cents lower, not a big deal, but if you average that over the cost of bushels it's about \$30,000 less, in the red, for my farm. That is an issue and that is part of the fair market. But we also have to deal with these high taxes. And today I'm renting ground that the taxes are higher on than what I paid for rent when I started farming--\$75 an acre when I started farming some dry land; now today, that piece of land that I'm renting the taxes, I'm told, are over \$100. This is just outrageous. So the tenants will pay the taxes at some point. That's the problem that I'm running into as a young producer. My landlords will not come down on my cash rent prices simply because they need those funds to help support their taxes. As a reference to other states, I've talked with a couple of friends in Marion County over in Iowa. They have both row crop and pasture ground and right now they're paying about \$16 an acre. This makes me very uncompetitive when compared to my neighboring county when I'm paying over \$100, they're paying about \$16. I fully support the initiative LB338 which switch farm valuations from a sales point to a more fair projected price production base. The Governor's reform and proposal would limit the growth and increases for ag land value in the future creating that sustainability for young producers that I look forward to and I think everyone that needs to look forward supports the next generation. This reform ties taxes directly to that income potential ensuring producers aren't struggling to pay high property taxes based on sales. The bill...and I will close up here on time. Again, I encourage the committee to support LB338. Nebraska's ag industry accounts for 25 percent of Nebraska's overall economy and we really need to do our due diligence to protect it. I'll take any questions that I can answer, otherwise I will... [LB338]

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SENATOR SMITH: Thank you, Mr. Greckel. Senator Groene. [LB338]

SENATOR GROENE: Thank you, Senator Smith. Do you have friends...do you have friends in Iowa that farm? [LB338]

SHANE GRECKEL: Yes. [LB338]

SENATOR GROENE: How do they fund their schools? [LB338]

SHANE GRECKEL: I do not know all the specifics of their tax procedures over there, Senator, but when I look at it from my standpoint, I look at it from my business to protect my business. I see them paying \$16 an acre; I see myself paying \$100 an acre. [LB338]

SENATOR GROENE: I'm telling you, 70 percent of that \$100 is going to your local school, or more if you have a bond election. I'm trying to fix property taxes, and every dollar we collect is spent. So in Iowa, somehow they're funding their schools, but it isn't with the farmers' property taxes. That's all I'm asking. If you could get me that, I'd really appreciate it. [LB338]

SHANE GRECKEL: I don't know. I really don't. [LB338]

SENATOR GROENE: I can find it myself. [LB338]

SHANE GRECKEL: But...yeah...I know. [LB338]

SENATOR GROENE: Thank you. [LB338]

SENATOR SMITH: Question? Senator Harr. [LB338]

SENATOR HARR: Thank you, Chairman Smith. Do you know what their top income rate is in Iowa? [LB338]

SHANE GRECKEL: No, I do not. [LB338]

SENATOR HARR: Okay. Would you be surprised if I told you it was higher than Nebraska? [LB338]

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SHANE GRECKEL: I would not be shocked. [LB338]

SENATOR HARR: Okay. Thank you very much. [LB338]

SENATOR SMITH: Thank you, Mr. Greckel, for your testimony. Let's take one more proponent so we can move on to opponents. How many? We got two people there? We'll...yeah. Welcome. [LB338]

ROBERT JOHNSTON: (Exhibit 7) Good evening, all. Mr. Chairman, committee, I am Robert Johnston, R-o-b-e-r-t J-o-h-n-s-t-o-n. I'm a row crop farmer in Antelope County and I'm also a director with the Nebraska Soybean Association. The Nebraska Soybean Association is very committed to property tax reform. We support LB338 in concept to adopt the Agricultural Valuation Fairness Act that would change the methodology for assessing property value from a market-based system to an income-potential assessment. We believe this bill will continue the conversation focusing on a solution for equitable property tax reform. In reviewing the bill, we support the concept for assessing it on an income potential. However, we feel it needs to be a more comprehensive bill and be a bigger package that shows substantial reform. With property taxes comprising 48 percent of the combined collections of property, state, and income, it is critical we work to rebalance the tax burden in a way that benefits all Nebraskans. The Nebraska Soybean Association is eager to be part of the conversation about property tax reform, and we encourage the committee to move forward with those discussions towards meaningful reform. So in summary, we support Senator Brasch, we support the Governor, the Governor's legislation, but as stated previously, we need relief now. Oh, and before I say thank you, Senator Harr, I have been to Hawaii,... [LB338]

SENATOR HARR: (Inaudible.) [LB338]

ROBERT JOHNSTON: ...and it was not a farm business expense. It was a "make the wife happy" expense. (Laughter) Now, thank you for your time. [LB338]

SENATOR SMITH: Thank you, Mr. Johnston. Hold on just a moment. Questions for Mr. Johnston? I see none. Thank you. Thank you for your testimony. You were standing there, so let's go ahead and let's take your testimony and then we need to move on to opponents on LB338. So the opponents, if you could kind of position yourself so we can move on. Welcome. [LB338]

SCOTT PETERSON: (Exhibit 8) Thank you. Good evening, Chairman Smith and members of the Revenue Committee. My name is Scott Peterson, S-c-o-t-t P-e-t-e-r-s-o-n. I'm a cow-calf

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producer and also an attorney from Valentine, Nebraska; and I also have law offices in Winner, South Dakota, and Martin, South Dakota. I appear before you today to testify on behalf of Nebraska Cattlemen in support of LB338. I'm also the vice chair...national vice chair for taxing credit for the National Cattlemen Beef Association. Property tax reform and relief is a top priority for cattle producers across Nebraska. LB338, we believe, is an essential step to achieve that reform and provide long-term relief. This bill shifts our valuations from market based to an income potential. We believe this will provide long-term relief. We understand that it's not a short-term solution, but we believe over the long term it will be a good solution. Under our current market value-based system, valuations don't accurately reflect the income producing potential of the land. My own personal experience is that the property taxes on the land I use for livestock is approximately 15 to 30 percent of my gross, whereas the property that I use for my legal business, the taxes on that run between 1 and 5 percent of my gross. This is the unfairness that we have to deal with. Many producers I represent in Nebraska and South Dakota have similarly situated land in each state. The property tax rates that they pay in South Dakota are approximately half of their similarly situated land in Nebraska. We've created a competitive disadvantage to our ag producers in the state. One of the arguments that I've heard today is that valuation relief won't make a difference; the local control of spending will. I'm a board member of the Cherry County Ag Society; I also happen to serve on the cemetery board. These are funded in part by a levy on property taxes. Each of the last five years in our ag society board budget hearing, our members have voted for zero increase. However, each year, due to the increases in valuation, we've received more tax dollars. Our board has gone above and beyond to find other revenue sources, but the taxpayers' money keeps flowing to us. We're not given the option on our form for budget authority to reduce our levy. We're given the option of a zero increase, 1 percent, 2 percent, and 3 percent increase. We don't want more money, but we're getting it. That same thing can impact the largest user of property taxes--local schools. Reduction in valuation will cause many rural schools to reach their levy limits and give them greater access to state aid, rebalancing the state aid throughout the state rather than having it fund a limited group of schools. Valuation reduction will absolutely make a difference by placing local decisions on budget authority and levy increases back in the hands of those at the local level most responsible and will require that those local entities actually deal with the issues without getting these valuation increases that move their limits. We agree that this bill is not the silver bullet that will save our cattle producers today. This year and next will require significant belt tightening in our personal budgets and in our state and local budgets. It will require property tax credits to help cattlemen and cattle women survive and it will require the Legislature to consider other tax avenues. But the change in valuation is essential to fix our future. Now is the time for this reform. We would encourage you to support LB338 and reform the method by which we create property tax valuations. Thank you and I'd be happy to answer any questions. [LB338]

SENATOR SMITH: Thank you, Mr. Peterson. Senator Groene. [LB338]

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SENATOR GROENE: Did you say you cannot lower your levy? [LB338]

SCOTT PETERSON: When we get our budget authority from the ag society board, we aren't given the option of reducing what we're asking for. [LB338]

SENATOR GROENE: Have you given your fair manager raises lately? [LB338]

SCOTT PETERSON: No. The entire time I've been on the board, we haven't raised the tax rate and we have not given our fair manager a raise. [LB338]

SENATOR GROENE: But you've gotten more money because of valuations. [LB338]

SCOTT PETERSON: Yes. [LB338]

SENATOR GROENE: What have you done with the money? [LB338]

SCOTT PETERSON: More likely than not, we have probably spent it, but it...our amount that we're holding back probably stays about the same. [LB338]

SENATOR GROENE: I was going to say, because you can lower your levy. There's no levy limit. [LB338]

SCOTT PETERSON: Okay. [LB338]

SENATOR GROENE: There's a levy limit up, but there is no levy limit down. You can lower your levy. [LB338]

SCOTT PETERSON: Okay. [LB338]

SENATOR GROENE: I mean, you check, but you can, I think. Talk to the county. [LB338]

SCOTT PETERSON: I know that's not an option when they send us our budget authority that we have. But I will talk to the county commissioners and review that. [LB338]

SENATOR GROENE: Yes, I think the county...you can lower your levy. [LB338]

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SCOTT PETERSON: Okay. [LB338]

SENATOR GROENE: Thank you. [LB338]

SENATOR SMITH: Thank you, Mr. Peterson. [LB338]

SCOTT PETERSON: Thank you for your time. [LB338]

SENATOR SMITH: Appreciate your testimony. [LB338]

SENATOR GROENE: Thank you. [LB338]

SENATOR SMITH: (Exhibit 9) All right, we are now going to transition to opponents, those wishing to testify in opposition to LB338. And I do have a letter to read into the record in support of LB338. We received a letter from Dan Wesely representing the Nebraska Corn Growers Association. Again, that letter was submitted for the record in support of LB338. First opponent of LB338? Welcome. [LB338]

ROBERT POST: Hi. I drove 405 miles to do this, to come up there. [LB338]

SENATOR SMITH: Well, we appreciate your travel time to be here. [LB338]

ROBERT POST: (Exhibit 10) I want to, before I really get started, I want to say to the Governor that I'm testifying on the bill as it was written. Okay. My name is Robert Post, R-o-b-e-r-t, Post, P-o-s-t. I'm a Banner County Commissioner. Chairman Smith, distinguished Senators, thank you for your time. I like this idea. I wanted to see this change for years, but I have reservations about this bill. So often with the market-based system, true values can be hard to determine. For a small county like Banner County, often we don't have enough sales to satisfy requirements that force us to borrow sales, and therein lies the problem. We have no town in the county, so I feel values are influenced by that fact. There are no grain elevators or livestock sale barns in Banner County. It is a long way to services most desire. Another factor is we are close to Colorado. And as the urban sprawl continues, more people are being forced out. I am confident that the sales are influenced by the 1031 exchanges, and often the time line of the 1031 exchange forces a hasty decision on their part. They often resell at an even higher price to another 1031. Nebraska Game and Parks has a desire to own a large swath of the Wild Cat Hills, and have been buying it at an inflated price. They have no consideration for a profit; they only want to own the land for, well, I don't really know what...paying ridiculous prices. I'm sure you've all heard about the two neighbors who want to own that piece of land that each borders. Well, I can attest that our ranch

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was in that position. To top it off, my father had told me before he died that if that land ever comes for sale, buy it no matter what it costs. Is that a fair sale to use? Finally, as the economy has slowed to a crawl and interest rates dropped on to almost nothing, land became an excellent investment. Once again the values payed have very little to do with the value that actually reflect what a working farmer or rancher could pay or even pay taxes on. Over the last several years, we've been on a roller coaster. As sales determine, one year dry cropland will take a jump; the next year either irrigated or pasture will jump. It is so hard to explain to the taxpayers. They often leave unhappy and unsettled with the explanation. It's a no-win situation for the assessors and the board members and the landowners. There is another proposed bill that establishes no limits. It also lays out the process on how income is determined and the time frame to capture that data. I feel that this process may be better analyzed with the help of the university staff and using their data along with the Farm Service Agency. The work will overwhelm PTA and I'm quite sure there are experts on commodities and cattle who can better develop the income matrix. They also study other states, learn from their mistakes and successes. Unfortunately, this bill doesn't fix all the problems. In the long run, it will help stabilize valuations, but it won't lower the reliance on property tax. The new certified county valuations established under the bill must, at least, match the valuations established under the market method as it expires. Levying bodies must be made whole. Also, the capitalization rate must not be controlled by PTA. A thought might be to appoint a committee of various officials and experts from around the state to set the capitalization rate and review as needed. It is foremost that we keep this in the hands of the people. Also, there is no need to put a lid on the valuation. The income data will self-adjust the value. Unfortunately, this concept doesn't fix all the problems, but in the long run it will help stabilize the valuations but it won't lower the reliance on property taxes. Senators, I drove 405 miles to testify and may not make it back again, so I respectfully must ask if I can offer my support to what I think is a better bill. I offer my support to LB602. And then there's a little bit more. So are there any questions? [LB338]

SENATOR SMITH: Thank you, Mr. Post, for being here, and thank you for driving 405 miles, and thank you for being a county commissioner. You know, service at the local level, that's a hard job and we appreciate that very much. Senator Harr has a question for you. [LB338]

SENATOR HARR: Thank you. What is LB602? [LB338]

ROBERT POST: It's a very, very similar bill. It lays out the processes that seem to be...I apologize, it lays out the processes that seem to be missing in this bill. They kind of, maybe, have the plan, but it...like I said, I testified on the bill as it was printed, and so it lays out that a little bit better. And the one thing that I have a little problem with is three years on income. If I understand that's correct, that we're going to use a three-year basis on income, 2011, 2012 corn was over \$7. We sold yearlings for \$2,100. Currently, I'll be lucky if I get \$1,000 for those yearlings, and corn is \$3.20. And what I'm trying to say is, if you took those two years that had

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that \$7 corn in it, if we're only going to use three years for the looking at income, I may have misunderstood that, but that needs to be a longer time. That needs to be eight years. That needs to be a little bit longer than that. And if you look at the back page, Senator Harr, you like to talk about houses and if you give me the leisure, I'd like to read this to you. [LB338]

SENATOR HARR: Please. [LB338]

ROBERT POST: And it is so unfair. I'll give you an example. A house down the road is valued at \$300,000. At Banner County's levy, they pay a tax bill of about \$4,560. That's a lot for one family. But our family's ranch, which is just my wife and I now, it has an assessed value of \$2.8 million and our taxes are \$44,000. My family enjoys the same services as the folks down the road; it just costs us a little bit more to drive down that road. So I ask you to consider and please be very careful consideration for the numerous bills designed to shift the cost over to the state. I don't know how long us in ag can hold on with the current commodity prices. My current projections for both cattle and crops are losses. We can't pay the taxes that way. Thank you. [LB338]

SENATOR HARR: Thank you. [LB338]

ROBERT POST: Does that kind of...you like to talk about houses, Senator Harr. Does that kind of help maybe clear up a little bit? [LB338]

SENATOR HARR: Well, I like to talk a lot of things. (Laughter) Thank you, I appreciate it. [LB338]

ROBERT POST: Any other questions? [LB338]

SENATOR SMITH: Thank you, Mr. Post. [LB338]

ROBERT POST: Thank you. [LB338]

SENATOR SMITH: I see no further questions. Safe travels home. [LB338]

ROBERT POST: Thank you. Thank you, Governor. [LB338]

SENATOR SMITH: Next opponent of LB338. Welcome. [LB338]

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MARY LOU BLOCK: Thank you. My name is Mary Lou Block. I live in Custer County, 18 miles north of Gothenburg. And I am a fourth-generation owner/operator of a small, family farm/ranch. [LB338]

SENATOR SMITH: And, Ms. Block. [LB338]

MARY LOU BLOCK: I'm sorry? [LB338]

SENATOR SMITH: Spell that name for us, please, for the record. [LB338]

MARY LOU BLOCK: I'm so sorry. I was planning on doing that. [LB338]

SENATOR SMITH: That's okay. [LB338]

MARY LOU BLOCK: M-a-r-y L-o-u B-l-o-c-k. [LB338]

SENATOR SMITH: Okay, thank you. [LB338]

MARY LOU BLOCK: I am a registered dietician and I just want to say you have poor choices in your vending machine. And so maybe that's why I'm struggling with remembering to spell my name for you because I'm actually hungry and you guys probably are, too. So you might just consider redoing your vending machines. [LB338]

SENATOR SMITH: No kidding. (Laughter) [LB338]

MARY LOU BLOCK: (Exhibit 11) Okay, here we go. And my husband teaches math and then we run this cow-calf operation. I appreciate the opportunity to testify. I'm very thankful to the Governor for his repeated efforts in helping us solve the problem of the real estate taxes. And I appreciate Senator Brasch for introducing this bill and all your hard work last year. I did come down and testify last year for the Governor's bill in the Education Committee. And a senator, after I had left, said if this is such a crisis where are all the farmers and ranchers? And I can...although I can see why this question would be asked, the answer is that most of them are home working. And I just would like to underscore that it is a long ways to drive for a lot of these guys to come and testify for five minutes. And so you may not see them here, but believe me, it is a crisis. I direct you to the record that I have provided for you of our valuations. Our valuation has increased 281 percent in ten years: 8.77 percent in 2016; 37.45 percent in 2015; 34.14 percent in 2014. We need tax relief now. I am, however, testifying against this bill as a

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method of achieving the true reform and the relief that we need because I am concerned just about the bill as it is written. I may not understand it. Maybe once you guys get it tweaked, I will be happier with it. But I am looking at this, and because the relief in this bill doesn't begin until 2020 and may only bring a 2.2 percent valuation, may I just say to you that is like a puff of air in a Nebraska tornado when I am looking at a 281 percent increase in ten years. The second reason that I am...well, I guess I look at this, I think it will stabilize the revenue for Nebraska for the schools, which 78 percent of my tax bill goes to them. But what relief does it bring to me now? The second reason that I oppose this bill is that it seems to leave the decision making of valuation in the hands of nonagriculture-related individuals who, failing to understand some of the nuances of farm decision making and without intention, could impose standards upon the producer which limit, restrict, or penalize him for what he sees as his best decision. And I think these might be just some of the unforeseen consequences of this bill that I just am concerned of. That's why I don't really want to throw my whole weight of support behind it. A concern that my husband and I, myself, have is that this bill seems to create a bureaucracy to determine land use and thereby could control land use. And in order for us to be more competitive, I'll just have to finish up quickly, we have decided that we're going to have to go to a more sustainable ag and do more farm to fork. You have to be a lot more flexible with what you plant. And under this system, it seems to me that you would be penalized if you switch crops. And that is all about what you have to do when you are moving toward sustainable ag. And I think it raises a whole big other question for how you handle that particular piece. And I don't think that's a part of agriculture that Nebraska wants to miss out on because it is all over the country; we're hearing "farm to fork," "farm to fork." We want to have sustainable ag. I know, I will just grab one more little story. A guy, a young farmer, came down here to testify with me last year. He's not here this year because he's moving his cows to Kentucky because his dad is selling his land because the young man cannot pay the rent for him to be able to rent land from his dad. [LB338]

SENATOR SMITH: Thank you, Ms. Block, for your testimony. Senator Groene has a question. [LB338]

SENATOR GROENE: Thank you, Chairman. You said you're from Custer County? [LB338]

MARY LOU BLOCK: I am. [LB338]

SENATOR GROENE: I own a little piece of land there. Thank God you live there because I got some in Lincoln County, too, and it's not the same. But anyway, your neighbors in Broken Bow, what town are you by? [LB338]

MARY LOU BLOCK: I'm...actually Gothenburg is our town. We're 18 miles... [LB338]

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SENATOR GROENE: So the businessmen in town, on their businesses, are they...do they think they're not paying enough property taxes? [LB338]

MARY LOU BLOCK: No, they don't want property taxes higher either. [LB338]

SENATOR GROENE: Homeowners in Gothenburg? [LB338]

MARY LOU BLOCK: Well, actually, I know of a friend who said that her taxes on her home in Gothenburg went down this last year. [LB338]

SENATOR GROENE: (Inaudible) I guess, I'm not trying to trap you here,... [LB338]

MARY LOU BLOCK: No, no, it's okay. [LB338]

SENATOR GROENE: My point is, if...I'm back to the spending thing. [LB338]

MARY LOU BLOCK: Yes. [LB338]

SENATOR GROENE: If you don't pay it, who's going to pay it? We spend every dollar we collect. [LB338]

MARY LOU BLOCK: Right, I know. [LB338]

SENATOR GROENE: Can we put sales tax on the working poor? Can we...can we raise income taxes? [LB338]

MARY LOU BLOCK: I do understand that this is a problem. But I think if a slave came and said, hey, I want my freedom, you wouldn't say, hey, I...you can go as soon as you find a substitute to work. [LB338]

SENATOR GROENE: I mean, the fight is worth the fight. I'm just trying to be practical in the room here. [LB338]

MARY LOU BLOCK: Yeah. Yeah. [LB338]

SENATOR GROENE: But we got to cut spending. [LB338]

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MARY LOU BLOCK: I do understand that. But I guess I would rather pay income tax than what I'm paying on my property tax. It's two times what I'm paying on my land principal now. [LB338]

SENATOR GROENE: Well, I understand. Thank you. I was just making a point. [LB338]

MARY LOU BLOCK: Thank you. [LB338]

SENATOR SMITH: Thank you, Ms. Block. [LB338]

MARY LOU BLOCK: Thank you. [LB338]

SENATOR SMITH: Appreciate your testimony. [LB338]

MARY LOU BLOCK: Thank you. [LB338]

SENATOR SMITH: Next opponent to LB338. Opponent. Welcome. [LB338]

JORDAN RASMUSSEN: (Exhibit 12) Welcome. Good evening, Chairman Smith and members of the Revenue Committee. My name is Jordan Rasmussen, J-o-r-d-a-n R-a-s-m-u-s-s-e-n, and I'm testifying on behalf of the Center for Rural Affairs. We agree that property taxes are too high and local schools and government entities are too reliant on property taxes. The Ag Valuation Fairness Act is a commendable attempt to provide relief to our farmers and ranchers. Yet it does not present substantial or long-term property tax reform and will create a shift toward increased levies negating the relief it seeks to provide. Despite this measure's attempts to close the gap between high land values and income potential, any tax savings provides only limited relief. It is estimated that its modest effects would provide a decrease in valuation from zero to 4 percent. To illustrate this, consider a 40-acre parcel of irrigated land in Saunders County. The 2016 greenbelt valuation for this parcel of land is \$237,000. A 4 percent decrease in valuation would result in a tax savings of less than \$150. Applying this high-end estimate of the decrease in valuation to this nominal tax would create a nominal tax savings that would likely go unnoticed by the farmer. However, collectively, this property tax cut would result in further budget cuts for the community's Class D school that is already struggling to avoid the threat of consolidation. According to the OpenSky Policy Institute, this proposed change in valuation of agricultural land would decrease...would create \$154 million shortfall, including \$105 million to cuts to public schools, \$30 million to counties, and \$11 million cut to community colleges. To address these shortfalls, local entities are likely to raise levies to meet their budget needs, thereby eliminating the savings gained by the decrease in property taxes. Rural counties and residents, what this act

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is created...those that this act is created for, will likely see the greatest levy increases. While farmers and ranchers in these counties will see the least real tax savings, homeowners and businesses would be left with a 8.9 percent tax increase. This modest gain of redistribution does little to solve Nebraska's tax property challenge. There are better ways to lower property taxes. The state could restore some of the aid it has taken from schools, counties, and other localities in recent years. This is a logical and effective way to help lower property taxes for all segments of the rural population. Nebraskans' call for property tax reform has been heard, but LB338 doesn't quite get us there. Thank you for your time, and I welcome your questions. [LB338]

SENATOR SMITH: Thank you, Ms. Rasmussen, for your testimony. I see no questions from the committee. Thank you. [LB338]

JORDAN RASMUSSEN: Thank you. [LB338]

SENATOR SMITH: Welcome. [LB338]

JEFF METZ: Thank you. Good evening. My name is Jeff Metz, J-e-f-f M-e-t-z. I live in Morrill County, Nebraska. I'm also a county commissioner there. I'm a, first of all, I'm a farmer and rancher there and pay a huge amount of property taxes. I'm going to speak against this bill because it doesn't go far enough. It gives too much responsibility and too much...it relies too heavily on the property tax administration to set the rates, to set the averages, to set the prices. Our assessors right now, I'm not happy with the current system we have with the market...with the sales approach. We need some way to value this fairly. If this is it, great. We need some way to value this on an income base. I don't believe this bill is the one to do it. What we do need is a different way to fund schools. We need a different way to fund education in this state. Seventy-three percent of my property tax check goes directly to fund schools, whether it's the community colleges, ESU, or a local district. I would rather see a 2 percent increase in a sales tax go directly to relieve property tax than any other thing. We need immediate relief. I've got guys, producers, farmers/ranchers in our county that came in during valuation protest hearings this year. They can't pay their property taxes. They ask, what do we do? I don't have the answer. They take a lot...they're going to take a lot of this property out of production, put it in CRP contracts because they can't pay the property taxes and make any money. Low commodity prices has a huge amount of influence on this. But when the landlord can't afford to pay the inputs and the property taxes, they take it out of production. That hurts our rural counties. My county has 5,000 people in it. With that, I'll answer any questions. Thanks for my time. [LB338]

SENATOR SMITH: Thank you, Mr. Metz. Senator Groene. [LB338]

SENATOR GROENE: What county were you in? [LB338]

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JEFF METZ: Morrill. [LB338]

SENATOR GROENE: Oh. So you're in Morrill School District? [LB338]

JEFF METZ: Pardon me? [LB338]

SENATOR GROENE: You're in the Morrill School District? [LB338]

JEFF METZ: I live in the Bridgeport School District. [LB338]

SENATOR GROENE: I'm not sure if you're equalized or not. Do you understand the TEEOSA formula? [LB338]

JEFF METZ: You bet...no, no. [LB338]

SENATOR GROENE: Well, anyway... [LB338]

JEFF METZ: I do know what equalization aid is... [LB338]

SENATOR GROENE: And property tax is... [LB338]

JEFF METZ: ...and our district gets zero. [LB338]

SENATOR GROENE: Yeah, all right. Property tax is inferred. [LB338]

JEFF METZ: Sure, sure. [LB338]

SENATOR GROENE: I just wanted to...and you said 75 percent goes to your school? [LB338]

JEFF METZ: Education. Yes. [LB338]

SENATOR GROENE: Yeah. I just want to make a point to a couple of people in the room that the state does set your property taxes by making sure that you fund your schools. [LB338]

JEFF METZ: Exactly. [LB338]

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SENATOR GROENE: It is a state issue, is it not? [LB338]

JEFF METZ: It is a state issue with the mandates. Even at a county level, we have a huge amount of mandated things that we have to pay for. [LB338]

SENATOR GROENE: At your county government...yeah. [LB338]

JEFF METZ: Sheriff's office, inmates, transportation, I mean it's a burden on all of us and we have to collect more taxes to pay for some of the state's obligations. [LB338]

SENATOR GROENE: How did 605 affect you then...about 66...anything under six months, you put them in jail. Have you got more prisoners now? [LB338]

JEFF METZ: You know, I don't know. Our jail houses ten total. When we get over that, we have to contract with Scotts Bluff County or neighboring county at the rate of...you know, we pay them by the day. And it's just a long ways from my house to here. And the youth detention center closing in our neighboring Scotts Bluff was more of a burden than anything. [LB338]

SENATOR GROENE: So what you're saying is a lot of things that pass here affect your property tax rates. [LB338]

JEFF METZ: Almost everything. [LB338]

SENATOR GROENE: All right. Well, I guess some people should quit saying property taxes are local. [LB338]

JEFF METZ: If I might, Senator, could I...I also have a...these are right from our county assessor. [LB338]

SENATOR SMITH: Are those handouts? [LB338]

JEFF METZ: No, they're not, they're not. They're just for information here. You know, we've heard a lot of increases today. I have property here that the valuation went up 300 percent, but the tax bill, 640 percent in that ten year span. Six hundred and forty percent, I pay higher taxes on that same property. Here's another one you'll find interesting. The value on this...this is a section of grass, the valuation went up 200 percent in 12 years; the tax asking...the total tax went

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up 455 percent. You know who owns that land? State of Nebraska. That's a school section in our county. [LB338]

SENATOR GROENE: Thank you, sir. [LB338]

SENATOR SMITH: Again, Mr. Metz, thanks for testifying. How long have you been a county commissioner? [LB338]

JEFF METZ: Six years. [LB338]

SENATOR SMITH: Well, we appreciate that local support for your community. [LB338]

JEFF METZ: It's a lot easier job than what you guys have to do, I've noticed. I've been here two days; I can't wait to get back. (Laughter) [LB338]

SENATOR GROENE: I'm following you out west Friday. [LB338]

SENATOR SMITH: All right, thank you. Next opponent of LB338. Welcome. [LB338]

JOHN HANSEN: Mr. Chairman, members of the committee, again for the record, my name is John Hansen, J-o-h-n, Hansen, H-a-n-s-e-n. I'm the president of Nebraska Farmers Union. I don't know of any ag organizations that probably spent more time or have been more consistently in pursuit of an alternative way to help value ag land, including earnings capacity. So, we are...we have looked at this bill. We thank Senator Brasch for bringing it. We thank the Governor for initiating the idea. But I've been doing this for 27 years, so it would be fair to say that this is not my first rodeo. So in the terms of whether or not this is kind of the fix or not, you back up and I would draw your attention to the report that Bill Lock drafted for the Revenue Committee on December 9, 2014, and it's a result of LR566, introduced by Senator Hadley. And some of the data in that report gives you an idea of kind of where the landing spot needs to be relative to ag land valuations. So when you look at where we started out, we're substantially higher than our surrounding states, and so for those of us who have members who farm on both sides of the line from Kansas and Nebraska, Nebraska and Colorado, etcetera. So just the phone calls this week from my Colorado folks that farm on both sides of the line, the Colorado tax rate is \$1.80 an acre. Nebraska is \$12 an acre, except the Colorado land is more fertile and better ground. So that's consistent with the report that Table 2 on page 7 of the report I referenced that says that the effective tax rates on ag land from 1967 to 2013 for Nebraska compared to South Dakota is 1.91 times higher; 2.46 higher than Iowa; 3.21 higher than Kansas; 7.1 higher than Colorado; 10.94 higher than Missouri. So we're...to do what amounts to 2 percent by 2020 is kind of like calling

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the ambulance about two years after the funeral. We need more help faster here and we need to end up at a place that is substantially lower. So if we're only going to end up at 2 percent, I would suggest that that 2 percent isn't even going to be across the board. A lot of that is going to be between ag. And when you look at the difference in taxing districts across the state, I would suspect that we're going to get maybe, at most, 2 percent for about a third of the taxing districts and the other two-thirds doesn't make any difference because it's the same issue that we talked about before where it is simply different pockets on the same set of pants. So it doesn't make any difference. So the last thing I'll say, NASS data, so a lot of the stuff that we're using here in order to get to where we're at, the NASS data is wildly inaccurate because it is wildly underreported. And why is that? For some reason, the farmers and ranchers don't trust the government. And so when I go out to meetings and I'm encouraging my members to fill out the reports, for Pete's sake, so we have better data, about half is about as high as I ever get of all the folks who turn in the data on which the NASS is based. So there is wildly different things that happen from one end of the county to the other. And so when you're using NASS data, you know, things are far less than accurate on a county basis. With that I'd end my comments. [LB338]

SENATOR SMITH: Thank you, Mr. Hansen. I see no questions from the committee. [LB338]

JOHN HANSEN: Thank you very much. [LB338]

SENATOR SMITH: Thank you. Welcome, Ms. Fry. [LB338]

RENEE FRY: (Exhibits 13 and 14) Thank you. Good evening, Chairman Smith and members of the Revenue Committee. My name is Renee Fry, R-e-n-e-e F-r-y, and I'm the executive director of OpenSky Policy Institute. I'm also much more confused about this bill now than I was coming in. And I would say we're very sympathetic about the increased property taxes being paid by agricultural landowners. But we don't believe LB338 is an effective way to address this issue. In some communities, this legislation will likely increase property taxes for many residential and commercial landowners. And in highly agricultural areas, where there are less residential and commercial landowners to shift taxes to, levies will likely be increased to make up any lost revenue, wiping out any significant benefit to agricultural property owners. Finally, we are concerned that the assessment cap will compound and continually separate the taxable value of agricultural land from market value raising questions about how this bill would operate over time. Such consequences are why the Lincoln Institute of Land Policy writes that assessment caps are among the least effective, least equitable, and least efficient strategies available for providing property tax relief. For these reasons, we oppose LB338. LB338 would provide the greatest benefit to agricultural landowners with property adjacent to urban areas where taxes can essentially be shifted from agricultural landowners to residential and commercial property owners. Residential and commercial property owners in Lincoln and Omaha may see their

property taxes increase, but because there is so little agricultural land, any increase is likely to be small. In communities like North Platte and Kearney where there is much more agricultural land adjacent to urban areas, the tax cut for these agricultural landowners will likely necessitate levy increases to make up for the loss of revenue for local governments which will either increase taxes on residential and commercial property owners, or result in significant cuts to education, roads, and public safety. In predominantly rural areas, where there's little residential and commercial property to shift the property tax burden to, LB338 will cause significant cuts to education and other local services or will result in levy increases to offset the loss of revenue. In these heavily rural areas, you'll likely see significant levy increases resulting in steep tax increases for residential and commercial property taxpayers and much of the tax cut for agricultural landowners wiped out. Please see the attached handout that illustrates how the shift would function between school districts in Lincoln County with different amounts of agricultural land. This is just one year, so the impact would, in theory, be compounded over time. We also have questions and concerns about how the cap would function with the provision in the bill that would keep assessed value within 60 to 75 percent of market value. Finally, we are troubled that the rise in property taxes is sometimes blamed on local government spending, such as cities, counties, and school districts. In fact, local spending has been flat as a share of the economy. Rather, reductions in state aid to local governments have resulted in more reliance on property taxes to pay for these essential services. Finally, I would flag...and I don't...I don't profess to know, but in that Bill Lock report that was just cited, he does explain how in 1985 we went to an earnings capacity method for value of agricultural land and then that was protested in 1986 because taxpayers thought that the valuations were too high under this method, so we did eventually go back to market value. So I would flag that for you. For these reasons we oppose LB338. I'd be happy to answer questions. [LB338]

SENATOR SMITH: Thank you, Ms. Fry. Questions from the committee? [LB338]

SENATOR GROENE: I already missed dinner, so now I got all night. [LB338]

SENATOR SMITH: Senator Groene. [LB338]

SENATOR GROENE: Thank you, Chairman. Anyway, so you don't think we're over...we're spending enough for government in the state of Nebraska? [LB338]

RENEE FRY: That wasn't what I said. [LB338]

SENATOR GROENE: What do you think, we should spend more on schools? [LB338]

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RENEE FRY: Well, I think we actually probably should do a needs assessment to see if we're spending the appropriate amount. I can't say whether we're spending too much or not enough at this point. But what I was saying was that if you look at spending... [LB338]

SENATOR GROENE: Do you think the middle class, I mean, I'm talking the working middle class, are overtaxed in this state? [LB338]

RENEE FRY: I don't think so. I think we're right about average compared to the rest of the country. We get...have great services. [LB338]

SENATOR GROENE: Well, I want to introduce you to a young man that came into my office with the railroad's union. He moved. He just lost his job. He moved from West Virginia here, with his family, to work at the railroad in the shop, gets his hands dirty. He just got laid off. And he wanted to talk about workmen's comp (inaudible). You know what his biggest issue was, where his voice got the loudest? How do you people pay the taxes in this state? This is middle class...lower middle class guy and you don't think they pay too much taxes? [LB338]

RENEE FRY: Relative to the rest of the country, we rank about in the middle. And we have excellent services. We rank...if you look at our business climate, our quality of life, we rank really high to the top. And people seem to value that; value good services, good roads, good schools. [LB338]

SENATOR GROENE: He didn't tell me how great the hunting was. He didn't tell me how good the roads were or great the schools was. He said, how do you people pay these high of taxes? Thank you. [LB338]

SENATOR SMITH: Thank you, Senator Groene. Thank you, Ms. Fry, for your testimony. [LB338]

RENEE FRY: Thank you. [LB338]

SENATOR SMITH: Next opponent of LB338? I see no further opponents. I have some letters for the record to read. Opponent? [LB338]

GREGORY C. LAUBY: Opponent. [LB338]

SENATOR SMITH: Okay. Welcome. [LB338]

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GREGORY C. LAUBY: Thank you. Senators, my name is Gregory C. Lauby, G-r-e-g-o-r-y C. L-a-u-b-y. I'm from Wymore, Gage County, Nebraska. And I thank you for allowing me to speak here today. I would like my comments to be applied for both LB337 and LB338, if I may. Each of you, as you know, holds a position of consequence. And whatever it was in your background that enabled you to gain the trust of those who placed you in that position today presents an opportunity for you to confirm their wisdom and also the risk of a continued erosion of that trust. Now there is no question that property taxes have been inequitable in this state for years and the problem has continued to compound itself without it being meaningfully addressed by the Legislature. The Governor has repeatedly made public statements for the last two years that a reduction of property tax was his top priority. But what is being offered is LB337, which compounds the inequity of the Nebraska tax system if it's adopted, and LB338, which is no more than a facade offering little or less, too late to do...to meet the needs that are pending now with farmers trying to obtain loans in the spring and continue operations. And it also threatens, if enacted, the funding of beneficial, local government entities that rely on property taxes for their meaningful function and even their very existence. In the words of Bob Dylan, what kind of love is this that moves from bad to worse? I hope you will keep both bills in committee and not refer them out to the floor. Thank you. [LB338]

SENATOR SMITH: (Exhibits 15-19) Thank you for your testimony. I see no questions from the committee. Thank you. Other opponents of LB338? We do have some letters for the record in opposition to LB338: we have Mike Hornacek, Together Omaha; Trent Fellers, representing Reform for Nebraska's Future; Greg Adams, representing Nebraska Community College Association; and John Skretta, representing STANCE. Again, all of those were in opposition, letters for the record. (See also Exhibit 19 from Maren Westra, representing Urban League of Nebraska.) We now move to those wishing to testify in a neutral capacity on LB338. Neutral. Welcome. [LB338]

JOHN JANECEK: Thank you. I'm John Janecek, J-o-h-n J-a-n-e-c-e-k. I grew up and I live on the family farm they started in 1884. I live in the northwest corner of Gage County. Across the road north is Lancaster, across the road east is Saline. The reason I'm here is because taxes are too high, property taxes. So I've worked hard all my life. I'm a bachelor, no kids. I love kids. I love school. But there's a limit. How much do I have to pay for the things I've accomplished? Steadily been going up, thinking about it, watching it. I've been always a good businessman, but there comes a time then there's better ways to do it, you know? And so decided not to sit on the couch at home, to come up and tell you what I thought. The county difference, they're all too high. There's different school districts in there that's pretty unique. You know, some of mine goes from here over to there and back over to there and here and there, and I'm thinking, sitting back watching this. And my dad bought ground in '75, X price, X taxes. I bought ground in '96, X price, X taxes. I bought ground in 2004. I bought it in '04, 2003 taxes were \$2,000-something. They're up to \$9,200 and it's just too much. I believe LB338 down the road would be something

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better than...for a start, you know? Other than that, you have a tough job. It's a privilege to be here and it's a privilege to present that to you. Thank you. [LB338]

SENATOR SMITH: Thank you, Mr. Janecek. Is this your first time down to the Legislature? [LB338]

JOHN JANECEK: I've been here and back, chasing the Pauline-Moore power line back in '93, '95. [LB338]

SENATOR SMITH: It's been a little time. Good to have you back. Did well. Thank you for being here today. Do we have any questions? Senator Groene. [LB338]

SENATOR GROENE: Sir, if they put sales tax on haircuts, mine is going to look like yours in a year or so. (Laughter) [LB338]

JOHN JANECEK: I like that. I been saving my haircut money for a new pickup. (Laughter) [LB338]

SENATOR GROENE: Those guys that don't got a lot of hair don't care. [LB338]

JOHN JANECEK: Yeah. Oh, Lord. [LB338]

SENATOR SMITH: Very good. Very good. You can tell the night is long. Thank you for being here. [LB338]

JOHN JANECEK: Thank you. [LB338]

SENATOR SMITH: Next person in a neutral capacity on LB338, neutral. That's going to be a hard act to follow. [LB338]

DAVID GRIMES: Maybe I could save my haircut money a long time and still couldn't afford a new pickup. I'm not sure. I'm David Grimes, D-a-v-i-d G-r-i-m-e-s, and I farm in Kearney County, Nebraska. I'm here to represent myself this evening. I would like to testify in a somewhat friendly neutral position on LB338. I think it's a step, maybe a small step, but a small step anyway in the right direction for valuing farmland and ranch land in Nebraska. There aren't always a lot of sales and sometimes it's, I think, a difficult job to establish a fair market value. Farms vary, ranches vary, ranch land a great deal, so I think this would be a good step. I do have

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some concerns as I read through the bill at home. The method that's provided there is a little...for measuring the income is a little bit vague. And I think as you would work on a bill and maybe craft something from this one to maybe another bill I think it would be good to have a more well-defined system or method of establishing what the income is. A lot of questions were asked about, well, what about this, what about that? And I think a method should be established that doesn't have to put an official in the position of using their discretion to choose. It should be more defined. Section 7 lays out that the capitalization rate basically just gets calculated so that you bring the value back up to a percentage of the actual value. And in listening to the explanation, it sounded like that I take the actual value to be basically a market value. And if I'm wrong, that's just fine. But I would think that we need to establish a capitalization rate that's more constant or it could be based on the prime rate, a fair, you know, a fair rate of return and then kept constant. And I would hope that as you go through the process and trying to weigh what you might can do, that you would give preference and priority to property tax relief over income tax relief. And I would hope that you would also remember and recognize there's been a huge tax increase in Nebraska in recent years and it's fallen most heavily on owners of farmland and ag land, and then, in effect, on the producers of the food. It takes land to produce food, fiber, and energy, and I'm not sure that it's equitable and fair to tax producers that have to use land to make their income. With that, I'd be happy to answer any questions or not, if you're all hungry and in a hurry. [LB338]

SENATOR SMITH: Thank you for your testimony. Questions? I see none. Thank you. [LB338]

DAVID GRIMES: Thank you. Thank you for staying late to listen to me. [LB338]

SENATOR SMITH: Next person in the neutral capacity on LB338. Welcome. [LB338]

JOHN KNAPP: Ready to go? [LB338]

SENATOR SMITH: Yes, please. [LB338]

JOHN KNAPP: Thank you, Governor, Department of Revenue, and Senator, for introducing this legislation, at least getting the discussion going. My name is John Knapp, J-o-h-n K-n-a-p-p, and I live in Sarpy County and I just wanted to throw in some figures. There have been some values thrown out on amount of increases in taxes. And I have 159 acres. It's a bare farm in Sarpy County. I'm in the Platteview School District. And in 2010 my tax bill was \$4,799 and in this year it's \$13,383. And a neighbor I was talking to prior to coming down here says that his property taxes went up 335 percent between 2006 and 2016. And approximately 80 percent of these property taxes go to support the school system, ESU and all the other, community college. And we were...the Legislature threw us in with Douglas County through the Learning

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Community. And if you've been reading the paper, the Douglas County Assessor is up to 20 years behind on some of his assessments. And I mean that's...I assume that's the minority of them but it was in the past it was regularly mentioned that he was up to seven or eight years behind. Sarpy County Assessor claims to be having our property annually up to date, up or down. And so when you throw us in a Learning Community with a school system or a county assessor who's not putting the properties at the proper values, my school district loses about \$2 million a year going to the Learning Community. And so we have to make up the difference there. And so this...but the Douglas County Assessor being low, he's got low valuation so he's eligible for more state aid. And our...and we're considered the rich district. It's the Platteview...Springfield Platteview District if you want to look it up. And in talking about some of the procedures for determining the value of the land, the soil was mentioned often. And I've got excellent soil but that doesn't mean I'm going to get a crop. And this summer...I live west of Buffalo Road, I don't know how many of you are familiar, Highway 50 and Buffalo Road, and I don't know how many people are familiar with the area. But right by Highway 50 they had a hail storm. It was one of those thunder bursts, you know, where you get a lot of rain. And my farm, two miles west, is complete dry. And so thank you for the time. [LB338]

SENATOR SMITH: Thank you, Mr. Knapp, for your testimony. I see no questions from the committee. Thank you for being here today. [LB338]

JOHN KNAPP: Yep. [LB338]

SENATOR SMITH: Next neutral testifier. Looks like we have one more after Mr. Dix. Okay. [LB338]

LARRY DIX: Good afternoon, Senator Smith, members of the committee. My name is Larry Dix, L-a-r-r-y D-i-x. I'm executive director of Nebraska Association of County Officials appearing today in a neutral capacity. I would tell you, I want to make sure that everybody understands, the NACO board had a significant discussion about a number of these bills and so we're going to be up here many, many times on these. This bill here I would tell you, with some amendments...and we appreciate working with the Governor's Office, and thanks to Ruth for answering many of our questions. With some amendments to the bill, NACO certainly could support what you're doing here. We want to make sure that everybody understands the assessors are not coming forward saying, you know, we can't reprogram our computers or anything like that. With the 2019 implementation date, meets that requirement. I think we can get there. So the issues that we talked about and I want to just clarify a couple of questions that came up. Senator Groene, I think we had one about political subdivisions being able to lower their levy or lower their budget, and certainly on the budget forms that the counties have that can happen. Over the last five years I think I provided information to the committee that 91 out of 93 counties over the

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last five years have lowered their levy and they lowered it because the valuation increased. And that's what should be going on in these areas. So the point that we want to talk about and would tell you that we need to discuss as far as being able to move to a support component of the bill, in the bill, in Section 7, it talks about the 3.5 percent cap. We believe, if we're going to go to this model, we go to the model. You don't need a cap. You don't need a floor. You let the values be what the values are. If you want predictability--some people have said, well, that gives us predictability--well, if you want predictability, you put a floor and you put a ceiling, but you don't just put a ceiling. Let the income model be what the income is. Take that out. That was one of the huge concerns of the county officials. Let the market determine what the market will be. The other thing that we have questions on, we still have questions in Section 7 on the wideness of the range, and we're going to be more than happy to work with the Governor's Office and with the Property Tax Division to try to work out those questions and get those answered to us. As always, we stand ready to work with the committee to try to answer any questions that you would have, to try to address those concerns, work on whatever amendments. We believe that whatever comes out, because we have to implement the bill, we have to understand the bill. This is a very, very complex bill, as we heard today. We want to be there to try to work through that to answer our questions so that we can properly educate our county board members and our assessors because we're the ones that are going to have to answer the taxpayers' questions. That's where they're going to come. The complaints are going to be brought to you guys, but we're going to have to be able to answer the questions as to why and where. So with that, I'll certainly close and answer any questions that anybody would have. [LB338]

SENATOR SMITH: Thank you, Mr. Dix, for your testimony. Senator Schumacher. [LB338]

SENATOR SCHUMACHER: Thank you, Chairman Smith. And thank you, Mr. Dix, for your testimony. I think it's been raised several times from several different directions today if something happens to lower levies for a district or, excuse me, to lower valuation for a district, either levies have got to go up until they hit some limit or spending has got to go down. In your experience in county government, is there much room for spending to go down? [LB338]

LARRY DIX: What we run into in county government is if, as a legislative body, we would stop the unfunded or the underfunded mandates, we could possibly see that. But each and every year that I've been here, for 15 years, there has been something passed in the Legislature that puts more demands on county government. I can't speak for the schools. I can't speak for the NRDs or any of those, but I would tell you we've been here many, many times talking about the unfunded and underfunded mandates. And this year, in this session, we've got a number of those bills. They sound good on the surface, but there will be unfunded mandates and underfunded mandate bills come up in this session. [LB338]

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SENATOR SCHUMACHER: Well, then one follow-up to that. If we said magic happens, the unfunded mandates, we'll send you a check for them, where do we get that money from? [LB338]

LARRY DIX: Well, the state of Nebraska has a few different ways for money to be obtained. It is through income tax or it is through sales tax, primarily. If we do not see any uptick in either one of those, due to growth in the state or the will of the political body of the Legislature to raise either one of those taxes, we don't get that money. [LB338]

SENATOR SCHUMACHER: Thank you. [LB338]

SENATOR SMITH: Senator Groene. [LB338]

SENATOR GROENE: Why would you be concerned about valuations? All you got to do is raise the mill levy. I know it's a little bit political harder in that we will hide behind valuation increases, but... [LB338]

LARRY DIX: A couple things, Senator Groene, that NACO has always been concerned about that. One is we probably have about as conservative group of county board members as we have legislators and as we have with leaders of the state not wanting to increase a levy, because we know what that does. [LB338]

SENATOR GROENE: What's the difference? It's the dollar amount you gain. What's the difference? You're after the answer to dollar amount. It's easier to hide behind valuation increases and claim I didn't raise taxes by not raising the levy, but you took more money. [LB338]

LARRY DIX: Well, and certainly we could. [LB338]

SENATOR GROENE: Raise the levy. [LB338]

LARRY DIX: We could raise the levy one... [LB338]

SENATOR GROENE: Wouldn't that be more honest to the taxpayer that you're raising the levy, their taxes, to create more revenue? [LB338]

LARRY DIX: You could explain it I think either way. But I think if you were to raise the levy, it's going to be very, very noticeable on the tax statement which the value would be... [LB338]

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SENATOR GROENE: The conservative county commissioners won't do it then. [LB338]

LARRY DIX: And a number will not. A number of times, a number of years ago, Senator Groene, before you were in the Legislature, we had a significant number of counties that were at the levy limit. We had a number of them that were bouncing up against the 50-cent limit. The difference that counties look at that than maybe other political subdivisions is that the counties' 50-cent limit is a constitutional limit. It's constitutional. We cannot come back to the Legislature and get 25 votes and say, give us more levy authority. It's a constitutional limit. [LB338]

SENATOR GROENE: Of course your bills, I haven't seen them. Are your bills to shift the price of the mandates to the state? [LB338]

LARRY DIX: We do not have any bills to shift any expenses to the state. [LB338]

SENATOR GROENE: You said unfunded mandates. [LB338]

LARRY DIX: Some of the bills of the unfunded mandates, we've got a couple of them that are coming up. One of them we're going to be looking at providing additional--let me get it right--expert witnesses, that there's a bill in there that would say anybody would receive an expert witness. That would be funded by the counties. [LB338]

SENATOR GROENE: Oh, that's one you're fighting, not... [LB338]

LARRY DIX: That's right. That's right. We did... [LB338]

SENATOR GROENE: You said something about unfunded mandates, that you're bringing some bills. [LB338]

LARRY DIX: And we did bring one that would shift the cost to the state and that is one where if someone dies while they're housed in a state facility, that the state would pick up the cost of the coroner. [LB338]

SENATOR GROENE: I'll make a deal with you. [LB338]

LARRY DIX: Okay. [LB338]

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SENATOR GROENE: You bring me a bunch of mandates; I just get rid of them. And the state don't pay for them, neither does the county. Let's do that. [LB338]

LARRY DIX: I...you know, there are a number of states that have legislation that says no unfunded mandates unless they're taken to a vote of the people and... [LB338]

SENATOR GROENE: Well, you bring me a list, I'll start dropping bills next year. [LB338]

LARRY DIX: I can tell you right where the list is. The list is on the legislative Web site. There was a study done about three years ago by Senator Crawford. There's a complete list on the legislative Web site under Reports and I believe it's from three years ago. It was done by Senator Crawford. [LB338]

SENATOR GROENE: We'll start dropping them. (Inaudible). [LB338]

LARRY DIX: I will be happy to bring those to you. [LB338]

SENATOR GROENE: No taxpayer has to pay for them. [LB338]

SENATOR SMITH: All right. Senator Harr. [LB338]

SENATOR GROENE: Thank you. [LB338]

SENATOR HARR: Thank you. Mr. Dix, thanks for being here today. I kind of recall my first year. We used to give you county aid and we cut that out, did we not? [LB338]

LARRY DIX: That's correct. [LB338]

SENATOR HARR: And how much was it before we cut? [LB338]

LARRY DIX: I believe when the final cut came down, I think the last one was like \$12 million, \$11 (million) to \$12 million. [LB338]

SENATOR HARR: Twelve was in my mind too. We've never returned that, have we? [LB338]

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LARRY DIX: We have not. We were always given the promise that when times got better we would get that back. [LB338]

SENATOR HARR: And if you had the extra \$12 million, that would probably help you cut property taxes? [LB338]

LARRY DIX: If we had the \$12 million, the way counties' budgets work, we would have revenue and, therefore, we would lower the levies further than what we have. [LB338]

SENATOR HARR: Thank you. [LB338]

SENATOR GROENE: One more, just a quick question. [LB338]

SENATOR SMITH: Senator Groene. [LB338]

SENATOR GROENE: Of the \$404 million and whatever it was of the Property Tax Credit Fund,... [LB338]

LARRY DIX: Yes. [LB338]

SENATOR GROENE: ...how much of that is cut a check for the counties? [LB338]

LARRY DIX: Of the \$404 million that goes to property tax... [LB338]

SENATOR GROENE: Or \$204 million a year, how much of that check is cut to the counties? [LB338]

LARRY DIX: Well, there isn't anything that is cut to the counties. [LB338]

SENATOR GROENE: The money goes to you guys and you show up a credit on the property tax. But there is money, a check, the state of Nebraska writes a check to each taxing...or to the counties, and you split it up. How much do you get of that? [LB338]

LARRY DIX: We don't get any of that. We pass that along to the taxpayers. That comes then directly off of the tax statement so the taxpayers do not pay that tax. [LB338]

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SENATOR GROENE: But that check is split up to each entity, right? It replaces the property tax. [LB338]

LARRY DIX: It only reduces the taxpayer's amount that they pay. [LB338]

SENATOR GROENE: The state writes a check to every county and you divide it up and you give it to...and you put it into the fund and you give it to each entity. [LB338]

LARRY DIX: To each taxpayer. [LB338]

SENATOR GROENE: No. The money shows up from the state, does it not, Ruth? Yeah. [LB338]

LARRY DIX: The money shows up from the state that goes to the counties, but when you look at the tax statement, that property tax credit is on the tax statement. [LB338]

SENATOR GROENE: Know the difference then of aid to local governments. It's no different. [LB338]

SENATOR SMITH: All right. [LB338]

LARRY DIX: Well, I don't know that I necessarily agree with that, but... [LB338]

SENATOR GROENE: Well, the state is paying your expenses and not the local taxpayer. [LB338]

SENATOR SMITH: Right. Thank you, Mr. Dix. [LB338]

SENATOR GROENE: Thanks. [LB338]

LARRY DIX: Thank you. [LB338]

SENATOR SMITH: Next person in a neutral capacity to testify. Welcome. [LB338]

TOM PLACZEK: Good evening. Been a long, long day. Thank you, Senator Smith, Chairman Smith and members of the Revenue Committee. My name is Tom Placzek, T-o-m P-l-a-c-z-e-k.

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I'm the Platte County Assessor and I represent the Nebraska Association of Assessors. I came here today to testify in a neutral position. And while I've been sitting in the back, listening to all the testimony and all these questions going back, I'm more confused now than I was when I first started. (Laughter) I'm trying to understand, when the questions were being addressed to the Governor and Ruth about the valuations that's going to be set for the LBG codes and, you know, the range we're going to have and all this stuff. And I'm trying to say, where does it say anything about how they're actually doing the income stuff on this? Where is this coming from? I don't see any of this in this bill. There's a lot of questions in this bill. This reminds me of Obamacare and Nancy Pelosi saying, well, just sign it and we'll figure out the details later, but just sign it and pass it; you know, you'll like it. Well, maybe we will; maybe we won't. Now as an assessor, I'll do whatever gets done. We'll find a way. We'll make it work. We always do. But it would sure be nice to be able to explain to the taxpayer how this actually works because we're going to get questions and we're the low man on the totem pole in this situation. We have to explain what the heck is going on. And when we don't know where any of this stuff is coming from, I'm sorry, it makes our job pretty tough. We just got landed on our plate a change in soil survey sent to us, update from the NRCS, this great federal institution that told us that these are now you're updated soil surveys. I guarantee you they were not in all of our county checking for soils, but they made changes. And some of these changes...a lot of the changes were pretty minimal, but the effect in some case, I have one place going up \$90,000. We didn't change land values. We didn't change any acre...per-acre amounts. But because the NRCS upgraded it from one grade to another, it went up 90 grand. Now how am I supposed to explain this? And that's what I see in this bill. I see a lot of problems. It may work out. Now income approach to value is well-known. It's documented. It works. But I don't see where it's all spelled out in here. I think we need to have it spelled out exactly how this is going to work. I know we'll get told about it later somehow, but I'm just really confused as to how this is actually supposed to work. Another question I have, and it's come up a number of times, is this 60 to 75 percent range. Now I don't know how this works, but if you've got Platte County at 60 percent and Colfax County at 75 percent, do you think the people in the Leigh School District, that straddles both, somebody on the Colfax County side is going to be a little upset that they're paying more of the bill for the school than the Platte County side? Right now it's 69 to 75. That's a pretty tight range. That's 6 percent. That's doable. Fifteen percent, now maybe this will work out. Again, it's not all spelled out. And I guess another question is the January 1 deadline. It's too late. We need to start that earlier. There's just a lot of things in this bill that are very much up in the air. So we're neutral, we'll make it work, but we have a lot of questions. And with that, I see my time is up. I'll stop. [LB338]

SENATOR SMITH: Thank you, Mr. Placzek. Senator Harr. [LB338]

SENATOR HARR: Thank you, Mr. Placzek. I think this is the first time you're here this year? [LB338]

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TOM PLACZEK: Oh, yeah, right. (Laugh) First time you haven't been here on (inaudible) before. [LB338]

SENATOR HARR: Well, yeah. Well, good to see you. [LB338]

TOM PLACZEK: You'll see me over the next couple weeks. [LB338]

SENATOR HARR: Good. Good, I think. It's good to see you, to a point. (Laughter) So I guess my question is why is there a need, if income is so much better and more exact, why is there a need for a larger range of 60 to 75 as opposed to, you know, 4 percent within residential...well, I guess 8 percent within residential? [LB338]

TOM PLACZEK: Eight percent. That's an excellent question. I don't know because I don't know how all this stuff is put together, how they came up with it, where it came from. I know a lot of stuff has been referenced, but it's not in the bill so we really don't know how that's coming. [LB338]

SENATOR HARR: Yeah. [LB338]

TOM PLACZEK: And you had mentioned earlier about commercial property being done on an income basis. We can do it. We do that in Platte County. I would think they should do it in Douglas County and Sarpy, anywhere. Douglas County would be ideal because there's all kinds of information out there to tell you how to value an apartment complex or an office complex, that sort of thing. But it can be done. It should be done. [LB338]

SENATOR HARR: I think I had to change a bill because of that, because income was being done here in Lancaster on apartments. [LB338]

TOM PLACZEK: Yeah, and it's a perfectly legitimate approach. [LB338]

SENATOR HARR: Okay. And I guess I had a question. So in here it says, "Agricultural land and horticultural land should be assessed at its agricultural use value using an income approach that complies with professionally accepted mass appraisal techniques." How do I know if the value you're using is an income approach that complies with professionally accepted mass appraisal techniques? [LB338]

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TOM PLACZEK: Based on that, I mean, I don't...wonder if you get into the income you can use rents to arrive at that as a basis. But you can use...you can certainly use production. But you know, part of the problem with this approach, and maybe I'm not going to answer this properly, but they're...as I understand it, reading this bill, we're giving a range of values for these LBG codes for 1A ground, so to speak. Well, what if I choose...say the range is 20 bucks, \$100 to \$120, and I choose \$100 and Colfax County chooses \$120 on the same kind of ground? Isn't that going to cause equalization problems? And then we've got a 60 to 75 percent also in there. I'm just...there's a lot of balls in the air here and I'm just trying to understand how this is going to work. But you know, the three approaches--cost, income, and sales--are all legitimate. [LB338]

SENATOR HARR: Uh-huh. [LB338]

TOM PLACZEK: And...so the approach isn't wrong. It's just there's no details here. [LB338]

SENATOR HARR: So if I say I don't think it's a professionally accepted mass appraisal technique, is that something I could appeal? [LB338]

TOM PLACZEK: No, because the income approach is a recognized approach. Now the devil is in the details. [LB338]

SENATOR HARR: But what's (inaudible) accepted? [LB338]

TOM PLACZEK: Well, I think a lot of times they use like IAA standards. And what all goes into that I don't... [LB338]

SENATOR HARR: So we should maybe put that in the statute? [LB338]

TOM PLACZEK: That wouldn't be a bad idea. [LB338]

SENATOR HARR: Okay. Sorry, I interrupted you. [LB338]

TOM PLACZEK: No, no, that's fine. That's fine. [LB338]

SENATOR HARR: Were you starting to say something else? [LB338]

TOM PLACZEK: No, I think that's one means of doing it. It's interesting. I asked three appraisers in the last week how they would...how they do land, and they use rents. They don't get

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into production. They just use rent factors. And then they, of course, compare that to what the market sales have been. And there were some questions earlier about reliability about sales and 1031 exchanges in Platte County. And for the most part, we just throw those out. We, you know, they're usually you do this and I'll do this and we'll be happy, and we just don't look into those. We try and verify all the sales that we can. We talk to brokers. We talk to...if it's at auction, we find out how many people were...whether it was marketed properly for a long enough period of time and take into account any premiums that might have been paid for two neighbors bidding on the same kind of piece of ground. We just had a case where a broker said he had figured it would sell for this. It sold for about 10 percent more because two neighbors bid on the ground right between them. So we adjusted our value or the sales amount by 10 percent and sent that into the state for their consideration because we thought why use the high value. We want to use as legitimate a number as we possibly can, so. [LB338]

SENATOR HARR: Do you think the current system is broken? [LB338]

TOM PLACZEK: Of valuation? [LB338]

SENATOR HARR: Of valuation of ag land? [LB338]

TOM PLACZEK: No. [LB338]

SENATOR HARR: Okay. [LB338]

SENATOR GROENE: You've been at Platte County... [LB338]

SENATOR SMITH: Senator Groene. [LB338]

SENATOR GROENE: Thank you. You've been an assessor at Platte County how long? [LB338]

TOM PLACZEK: Five years. I worked in the office since '98. [LB338]

SENATOR GROENE: All right. What's the average increase in property taxes that you've...that has been collected in Platte County over that period of time? [LB338]

TOM PLACZEK: To be honest with you, Senator, I do not know. I don't work with taxes. I work with valuation, so I don't really look at the taxes. [LB338]

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SENATOR GROENE: I can't do my point then. I bet you it's been 5-10 percent a year. [LB338]

TOM PLACZEK: I honestly do not know. [LB338]

SENATOR GROENE: And the state brags that we're only spending...we've been...stopped spending at 3 to 4 percent a year. We've dumped it on property taxes. [LB338]

TOM PLACZEK: Yeah, I...sorry, Senator, I can't answer that question. [LB338]

SENATOR GROENE: I'll have to get my own numbers. Ruth can get it for me. [LB338]

SENATOR SMITH: Senator Friesen. [LB338]

SENATOR FRIESEN: Thank you, Chairman Smith. You mentioned earlier and I know on commercial properties you do use an income component. Is that correct? [LB338]

TOM PLACZEK: Yes. Yes. [LB338]

SENATOR FRIESEN: How much does that weigh into the assessed value on the commercial business? [LB338]

TOM PLACZEK: Well, you don't take into account the actual business part of it, just the building. For instance, let's say it's an office building. We find out what typical rents are for those buildings and we use that amount. You find out what typical expenses are. Usually, they're not much if it's on a rental basis. And then you divide that by the market cap rate and you come up with a value. That's, on commercial property, that's what we use for virtually all of it. Now you don't use that as much, obviously, on an industrial piece of property. That tends to be more cost approach and depreciation and obsolescence, that sort of thing. [LB338]

SENATOR FRIESEN: So how do you decide which process to use on a property? [LB338]

TOM PLACZEK: Commercial, primarily we use income. We don't use a cost approach on that hardly at all. On residential, we use a cost basis and then we factor in...we figure out the depreciation from the market based on sales and we review properties, and we come up with a depreciation schedule that works for age, condition, that sort of thing. And so residential tends to be a cost, market combination and... [LB338]

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SENATOR FRIESEN: Because you have enough sales to base it on. [LB338]

TOM PLACZEK: Yes. Yes. You know, you were talking, some of these counties don't have many sales. In ag sales we average probably on the low end 60-65 sales every three years, on the high end we maybe have about 80, but it stays in that range. So we have a number of sales to actually choose from in Platte County. It's a pretty active market. So compared to, say, out in Banner County where they probably struggle to have four or five a year, you know, they do have a tougher job trying to come up with what is a fair value. And if two or three of them are 1031 exchanges, then they might not have any really sales to use. [LB338]

SENATOR FRIESEN: Well, they have to borrow sales then from different counties. [LB338]

TOM PLACZEK: And that's not a...borrowed sales gets a bad tag. It's okay to use borrowed sales as long as it's similar type ground. You know, I...you don't want to go 30 miles to find a sale, but if you can go a few miles into the next county and use it and it's similar ground, I see no reason not to use it. Commercial appraisers and farm appraisers do it all the time and it works in the marketplace. [LB338]

SENATOR FRIESEN: So again, not all assessors would probably view those 1031 exchanges the same as what you do or... [LB338]

TOM PLACZEK: That's probably true. We have a lot of sales and I just...I look at 1031 exchanges and I'm just a little hesitant to use them. I just think there's a lot that goes into those things. And I know of situations where a piece came up, a couple guys got in...made an agreement: You buy this, I'll sell you this, we'll trade and then I'll have my quarter and you'll have your quarter. And, you know, is that a fair market? I suspect not, so we try to avoid those. [LB338]

SENATOR FRIESEN: Okay. Thank you. [LB338]

TOM PLACZEK: You're welcome. [LB338]

SENATOR SMITH: Thank you, Mr. Placzek, for your testimony today. [LB338]

TOM PLACZEK: Okay. Thank you. [LB338]

SENATOR SMITH: Next testifier in a neutral capacity. Welcome. [LB338]

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DAVID SCHWANINGER: Well, thank you. I haven't read the bill, LB338, but from what I've seen here today I'm afraid things are just going to get caught up and lost in semantics. The simple fact of the matter is education needs to be funded from somewhere else besides real estate taxes. [LB338]

SENATOR SMITH: And let me have you state your name and spell it. [LB338]

DAVID SCHWANINGER: David Schwaninger, D-a-v-i-d S-c-h-w-a-n-i-n-g-e-r. And I don't believe any landowner in this state would decry, or very few of them, what the county gets or what the police or fire protection gets, because as land, as property, my land needs road access and it needs police and fire protection. It does not need an education. I have yet to see a school bus pull up on unimproved farm ground and fill up with kids and take them over to Norris, and that is anywhere from 60 to 75 percent of our bill. And this can't drag on till 2020. It needs to happen now. And what I've seen here, it's taken till 8:00 tonight and we've gotten nowhere. This needs to happen and it needs to happen now. This is just beyond the pale that anyone thinks this is sustainable or equitable or reasonable. [LB338]

SENATOR SMITH: Thank you, Mr. Schwaninger, for your testimony. Questions for...Senator Harr. [LB338]

SENATOR HARR: Thank you. Do you think 2 percent is enough of a cut? [LB338]

DAVID SCHWANINGER: No. When I...my taxes have gone up 300 percent, 2 percent is just like slapping me in the face. [LB338]

SENATOR HARR: All right. Thank you. [LB338]

SENATOR SMITH: All right. Thank you for being here tonight. [LB338]

SENATOR GROENE: Nice exclamation point to the day. Thank you. [LB338]

SENATOR HARR: (Inaudible). [LB338]

SENATOR SMITH: Remaining testifiers in the neutral capacity? I see none. Senator Brasch, you're invited to close on LB338. [LB338]

SENATOR GROENE: Waive. [LB338]

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SENATOR BRASCH: I will wave good-bye in a minute. (Laughter) [LB338]

SENATOR SMITH: Welcome back. [LB338]

SENATOR BRASCH: Thank you, Chairman Smith. And thank you, members of the committee. Well, it certainly has been a long night. I do want to thank everyone that's come here to testify and I'm hoping that this committee will be different than the other Revenue Committees that have heard the cry for help from our ag community, long before I was a senator, long before you were the Revenue Committee. And the problem is real and it keeps getting bigger and bigger. And, well, we've had our Tax Modernization Committee. We've done everything we can. And I'm hoping that it's this committee, this Legislature, and this Governor that can champion the change that is needed to have our farmers survive. I don't know what it's going to take for five of you or eight of you to decide that we need to move forward with amendments, with some changes. I like parts of LB602, Senator Erdman's bill. We've been talking. I've been talking to the Revenue Department. I've been talking to appraisers in the past and I do find it interesting that part of the problem ongoing for years has been back to how it's valued and appraised. But I just heard it's not broken. So tell that to years and years of people. But I do believe that Nebraska is strong enough, is smart enough to take a look at the surrounding states and look at how they are using this system on not what your farm could sell for that's been in your family for generations but what you're really making. It's like if you want to look at income, okay, what is your income? Thirty thousand? Okay, I think you should pay \$35,000 in taxes then. That's not right. I do think that there is a process. It needs clarity. We need more, some amendments. But I think this is a sound, long-term, stable solution that will bring farming into the future. It will protect those farming now. I do appreciate your attention tonight. For those of you that know I have an 8:00 p.m. curfew I've given myself the last seven years, (laughter) it's not going to happen. But I want to thank you and I'll work with you off the floor and out of committee. Yes. [LB338]

SENATOR SMITH: Senator Friesen. [LB338]

SENATOR FRIESEN: Thank you, Chairman Smith. So you are going on your seventh year in the Legislature. [LB338]

SENATOR BRASCH: Yes. [LB338]

SENATOR FRIESEN: And you've witnessed the property tax problem firsthand back home. [LB338]

SENATOR BRASCH: Absolutely. [LB338]

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SENATOR FRIESEN: Is there any way of fixing the property tax problem without shifting a revenue source from one to the other, or can we just solve it by cutting spending? [LB338]

SENATOR BRASCH: I do think it's going to be a combination. But I do know, when I thought I would have to explain to my farmer husband, and it's crushing us too. You know, I have gone back to consulting as much as I can. I'm trying to make money to help the farm go as well, and you heard other testifiers. The wives have jobs, the husbands have. You know, we want to continue. But to answer your question is I think it's a starting place. It's working for, what, nine other states at this point. Should we have done it--you know, hindsight is, you know--a long time ago? Perhaps. But by doing nothing I think we are--one of the people that testified at the press conferences--we're just putting salt in the wound. And, yes, it's been before me too: Senator then Lavon Heidemann, Senator Kremer. I mean it's been growing and it hasn't...nothing has happened. And so I don't know if people are...they've gone beyond hopeless. Now they're angry. We've heard the angry voices. [LB338]

SENATOR FRIESEN: So you're saying this is one piece,... [LB338]

SENATOR BRASCH: This is a piece,... [LB338]

SENATOR FRIESEN: ...but cannot be the only piece. [LB338]

SENATOR BRASCH: ...a huge part. We can't do it the same way we've been doing it because that is just getting worse. We've gone from bad to worse. But there are pieces, yes, there are pieces. Do we need to increase taxes? That's like asking people who are making less money to pay more. You know, that's hard. And I have kept my word to my constituents that they asked me not to raise their taxes and I have stood on that floor alone and I don't believe that asking them to pay more out of their pocket for what they can't afford today is a good solution, wise or prudent. I think we need to take it a step at a time but we haven't even taken the step that we need on the behalf of agriculture. And I'm singing to the choir when I talk to you. [LB338]

SENATOR FRIESEN: But you... [LB338]

SENATOR BRASCH: Agriculture, we can't live without agriculture. [LB338]

SENATOR FRIESEN: ...you heard the testimony, though, today. There are people who are paying more in property taxes than they're making. [LB338]

SENATOR BRASCH: Absolutely, that's what's happening. [LB338]

SENATOR FRIESEN: Okay. Thank you. [LB338]

SENATOR BRASCH: That is exactly what's happening. [LB338]

SENATOR GROENE: I want to ask one question. [LB338]

SENATOR SMITH: Senator Harr has a question, then Senator Groene. [LB338]

SENATOR HARR: I heard Senator Friesen say we have a property tax problem, and you agree with him. [LB338]

SENATOR BRASCH: I do agree with him. [LB338]

SENATOR HARR: So why are we only doing something on ag? [LB338]

SENATOR BRASCH: Because ag is the most disproportionate, the greatest growth, the greatest damages. You heard how much...we all pay the same residential. I mean I pay as much, 100 percent, on the home I live in. But when...and I did notice the other...when you were talking about...okay. Go ahead. [LB338]

SENATOR HARR: You know, I can bring a sob story from my district of people who can't afford to live in their homes anymore. [LB338]

SENATOR BRASCH: This is not a sob story. [LB338]

SENATOR HARR: I'm not saying...I said, well,... [LB338]

SENATOR BRASCH: This is our number one industry. [LB338]

SENATOR HARR: All right. I can bring in people who can claim they can't afford their homes anymore, whether they have a homestead exemption or not. If we have a problem, let's fix the problem. But to only help one, I'm not sure. I'm okay with some of this. But if the problem is--and what I'm hearing from Senator Groene is the problem is--we're having a disproportion of how we pay for services used to relying on property taxes, let's address that. Let's not just stick a finger in the dike and hope that that holds it. That's what I'm trying to get across. [LB338]

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SENATOR BRASCH: And helping this one, agriculture is what helped us survive the last recession. Agriculture has helped all. Our tax dollars pay for schools across the state. [LB338]

SENATOR HARR: No one is denying that. [LB338]

SENATOR BRASCH: So they need help now because they can't pay for themselves, let alone the entire state. Something needs to change. [LB338]

SENATOR GROENE: Thank you. [LB338]

SENATOR SMITH: Senator Groene. [LB338]

SENATOR GROENE: See if you heard what I...thank you, Mr. Chairman. I heard over and over again it went from \$3,000 to \$9,000, it went from \$12,000 to \$37,000. Do you think those numbers were before or after the tax...property tax credit? It was after. Property tax credit hasn't plugged the hole, has it? [LB338]

SENATOR BRASCH: It has not plugged the hole, no. [LB338]

SENATOR GROENE: It hasn't stopped the spending. It just enabled more. That's a question. [LB338]

SENATOR BRASCH: It's a question. [LB338]

SENATOR GROENE: Yeah. Thank you. [LB338]

SENATOR BRASCH: Okay. All right. [LB338]

SENATOR SMITH: All right. Thank you, Senator Brasch, for your closing on LB338 and that closes the hearing on LB338 and the hearings for the day. [LB338]

SENATOR BRASCH: Thank you. [LB338]

SENATOR SMITH: Safe travels home for all those who drove a distance. [LB338]