

Transcript Prepared by Clerk of the Legislature Transcribers Office
Revenue Committee February 21, 2019

LINEHAN: Welcome to the Revenue Committee public hearing. My name is Lou Ann Linehan. I'm from Elkhorn, Nebraska, and represent the 39th Legislative District. I serve as Chair of this committee. The committee will take up the bills in the order posted. 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. If you are unable to attend a public hearing or would-- and would like your position stated for the record, you must submit your written testimony by 5:00 p.m. the day prior to the hearing. To better facilitate today's proceedings, I ask that you abide by the following procedures. Please turn off cell phones and other electronic devices. Move to the chairs in the front of the room when you're ready to testify. The order of testimony is introducer, proponents, opponents, and neutral and then the closing remarks. 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 materials that you would like to distribute to the committee, please hand them to the page to distribute and I'll introduce them in a minute. We need 11 copies for all commemm-- for all committee members and staff. If you need additional copies, please ask the page to make them for you now. When you begin to testify, please state and spell your name for the record. Please be concise. We will go with five minutes today so we'll use the light system. You'll have four minutes on green and when it turns yellow you need start wrapping up and when it's red you need to be done. If your remarks were reflecting on the previous testimony or if you would like your position to be known but not-- do not wish to testify, please sign the white form at the back of the room and it will be included in the official record. Please speak directly into the microphone so our transcribers are able to hear your testimony. To my immediate right is our legal counsel, Mary Jane Egr Edson. And to my immediate left is our research analyst, Kay Bergquist. At the far end on my left is committee clerk, Grant Latimer. And with that I will ask the senators to introduce themselves starting with--

KOLTERMAN: Senator Kolterman: Seward, York, Polk Counties.

GROENE: Senator Groene, Lincoln County, District 42.

LINDSTROM: Brett Lindstrom, District 18, northwest Omaha.

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

McCOLLISTER: John McCollister representing District 20, central Omaha.

BRIESE: Tom Briese, District 41.

LINEHAN: Today our pages are Kylie Cappellano, if you could stand up; and Brigita Ram-- Ram-- Rasmussen. Okay. Kylie is a senior at UNL and majoring in political science and TV broadcasting and prelaw. Brigita is a sophomore at UNL majoring in agriculture education. So if you have-- if they need to make you copies, let them know right away because they can get that done before you testify. Please remember that the senators may come and go during our hearing as they have bills to introduce in other committees. Please refrain from applause or other indications of support or opposition. I'd also like to remind our committee members to speak directly into the microphones. Also for audience, the microphones in the room are not for amplification but for recording purposes only. Lastly, we are electronics equip committee and information is provided electronically as well as paper form. Therefore, you may see committee members referencing information on their electronic devices. Be assured that your presence here today and your testimony are important to us and is critical to our state government. With that, we will open the hearing on LB444. Welcome Senator McDonnell.

McDONNELL: Good afternoon, Chairperson Linehan, members of the Revenue Committee. My name is Mike McDonnell, M-c-D-o-n-n-e-l-l. I represent Legislative District 5, south Omaha. Every one of you should have a packet and all my testimony is included in the-- that packet. LB444 proposes to extend Nebraska's homestead tax exemption to housing located at federal military installations. The primary goal of this bill is to address housing standards and subsequent quality of living circumstances for military service members and the families thereof who represent our country and reside at Offutt Air Force Base located in Bellevue, Nebraska. We are fortunate to have this military installation located in our state. And due to its unique nature, LB444 will impact and effect Offutt Air Force Base individually as a district entity it is-- distinct entity it is I would like to provide to the committee with some little history and background information. In 1996 the U.S. Congress enacted the Military Housing Privatization Initiative as part of the National Defense Authorization Act in an effort to address poor housing quality, a significant backlog of

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repairs and rehabilitations to its military housing units on and near military installations, and a shortage of affordable, quality, private housing available to members of the United States military and their families. Without privatization, the Department of Defense faced an estimated 200,000 of its 300,000 housing unit inventory in need of improvement with an estimated price tag of over \$30 billion of federal funding to achieve modern standards. Under the Military Housing Privatization Initiative, the Department of Defense was granted the authority to award projects to the private sector companies to develop, construct, renovate, and manage military housing. Leveraging private expertise and resources allow the Department of Defense to focus on its core defense mission while the program ultimately generated \$31 billion of private capital with a government investment of only \$3.4 billion. In implementing this model, each private sector investor was thoroughly vetted by the military. Private sector companies selected by the Department of Defense were responsible for financing, developing, building, renovating, and operating the housing for a period which is usually 50 years. All housing is located on or near military installations and is expected to be occupied primarily by military families. The privatization of the housing at Offutt Air Force Base started in 2005 and has since private-- provided over 900 new homes and nearly 500 renovated homes. Today the total community comprises nearly 2,000 homes rented primarily to military members and their families. Prior to privatization, the housing and land at Offutt were owned by the Department of Defense which required no property taxes to be paid. The Department of Defense provided maintenance and repairs of roads, infrastructure maintenance, police and fire protection, snow removal, and other community services without reliance on the local jurisdiction. Upon implementation, the privatization effort shifted the property tax burden to the private sector company. However, the previously mentioned maintenance and services did not shift to the local jurisdiction. This creates an unintended windfall to the local taxing authority. Taxes continue to be paid but said services are not being provided. The private sector company continues to provide and/or contract for police and fire safety, street and infrastructure maintenance, as well as other community services in addition to paying local property taxes. As such, these funds should be utilized to invest-- reinvest in the project which will directly affect the living standards and safety of our military personnel and their families. LB444 provides a solution to this inconsistency by extending Nebraska's homestead exemption tax to housing located on federal military installations. Again, Offutt

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Air Force Base is the only military installation affected by this bill. The intent and purpose of LB444 would require three major components. First, an annual payment in lieu of taxes would be made to the county treasurer in an amount equal to the amount of property taxes that would be payable to the school districts. Schools would continue to be made whole. Second, an annual payment equal to the amount of property taxes payable to the political subdivision which the exception-- with the exception of schools, would be made to the restricted infrastructure maintenance trust fund. Funds would be utilized with the proper allocation to providers for the maintenance and services being provided. By December 31 of each year, a certificate of compliance with the infrastructure maintenance trust fund shall be required to be fill-- filed with the Department of Revenue. The third component comes in the form of an amendment which was provided to you as a handout. AM228 is intended to provide an exception-- an exception for this exemption whereas the state-- the state's General Fund would not provide reimbursement for the loss. This important amendment was an oversight in the initial drafting of the legislation. AM228 alleviates the un-- unattended double payment to schools as referenced in the fiscal note, and it eliminates the General Fund reimbursement there-- thereby eliminating the fiscal note expenditure. LB444 proposes to provide necessary support and reinvestment to the Offutt housing community, its military families, and the future viability and sustainability of the project as a whole. Offutt employs over 10,000 people including civilian personnel. What it does for the state of Nebraska and the Sarpy County cannot be understated. As such, the bill is sponsored and supported by all senators who represent Sarpy County as they understand the importance of this legislation. I provided you with two letters in support of LB444, one from the Department of Army on behalf of the Department of Defense and a second from the Department of the Air Force. There will be two testifiers following me that can give you further details regarding the impact and importance of this bill. Dominic Vaccaro is here to answer any questions you may have regarding any partnership and pro-- project details and Command Sergeant Major Retired Patrick Alston is here to provide the committee with a personnel-- personnel and military leadership perspective. I'd appreciate the support of the Revenue Committee, and I'm here to try to answer any of your questions. I'm also going to be here for-- for closing.

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LINEHAN: Thank you, Senator McDonnell. Are there questions from the committee? Seeing none, we'll see you at closing. Proponents. Good afternoon.

DOMINIC VACCARO: Good afternoon, Madam Chairman, members of the Revenue Committee. I am Dominic Vaccaro, D-o-m-i-n-i-c V-a-c-c-a-r-o. I am president of Burlington Capital Real Estate. I oversee the privatized military housing project for Burlington Capital at Offutt Air Force Base. When we entered a public-private partnership agreement with the military, we agreed to build 900 new homes and to renovate nearly 500 more. We were assured our military troops would fill the homes and had an agreed-upon rent payment from the military. Due to reduced troop sizes and more troops being deployed, it is difficult to fill all homes with military personnel. Due to government cutbacks in sequestration, the rents have not increased to pay for much of the rehabilitation of the site. To make matters worse, Nebraska is one of a small handful of states that assesses property taxes on privatized military housing sites. Property taxes are used to pay for services provided by local political subdivisions. At Offutt and the surrounding federal land, we provide those services. We pay the base for police and fire services. We build, own, repair, and maintain the roads and utility infrastructure. We build and maintain the parks. The federal government owns the land. We own the homes and the improvements. However, at the end of the term of our lease with the government, everything reverts back to the federal government. The property affected in our case is similar to the property discussed in LB214. Under LB214, there is currently federally owned land located inside the fence at Offutt for which the county has jurisdiction even though the military provided all the services. In that case the federal government chose to take the property back. Similarly here, there is federally owned land outside the fence that is under the jurisdiction of the county but which services are provided by Burlington Capital or contracted to the base. The infrastructure we provide is important for the long-term sustainability of the development. The federal government is concerned with the fact that we pay property taxes as it affects our ability to provide quality services to our armed service members. Last year we introduced LB939. We listened to your concerns. Based on comments from last year, we sat down with other-- other local political subdivisions who have been freed of their obligations to provide basic services. This bill is a result of our hard work. The bill merely puts local governments back in the position they were before we formed the public-private

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partnership. The infrastructure improvements and maintenance we provide are critical to ensure the long-term health and well-being of our troops. Thank you for your time and I would ask for your support-- support of this bill, and I'm happy to answer any questions.

LINEHAN: Thank you. Senator McCollister.

McCOLLISTER: Yeah. Thank you, Madam Chair. Just so I understand-- and thank you for your testimony-- the services like snow, who provides that service?

DOMINIC VACCARO: We-- we contract with a private company to provide snow removal, maintenance of all the common areas, putting down ice. Unfortunately, this year the mandate has been particularly tough.

McCOLLISTER: Yeah. Now do the military families pay for this, to-- to live in the housing?

DOMINIC VACCARO: The military members pay what is called their basic allowance for housing that's an entitlement they receive from the military-- from the government. They pay that to us as their rent. And that is a fixed dollar amount set by the federal government. It's a fed-- it's a-- it's a maximum amount of rent that we can charge.

McCOLLISTER: In equal amounts.

DOMINIC VACCARO: In-- in equal amounts based on the pay grade of each service member.

McCOLLISTER: I see. So it varies by-- by the pay grade is what you're saying.

DOMINIC VACCARO: Correct. Correct. So a junior enlisted member may pay less than a senior officer but they may be entire-- entitled to different homes. Regardless in terms of your question, we, out of that rental payment, provide for contractors to maintain the houses, fix the heating and cooling, for example, mow the common areas, do the street and infrastructure maintenance, things of that nature.

McCOLLISTER: Thank you. Now I understand.

LINEHAN: Thank you, Senator McCollister Senator Kolterman.

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KOLTERMAN: Thank you, Senator Linehan. Thanks for coming today. When did Burlington Capital enter into the initial contract with the-- with the federal government?

DOMINIC VACCARO: September 2005.

KOLTERMAN: So in 2005 you-- you set up all these housing contracts. You built the houses, and did the subdevelopment.

DOMINIC VACCARO: We-- there was existing housing on the site. In fact, in 2005 we were conveyed by the federal government 2,600 homes. We demolished almost 1,900. We built 900 new homes. We renovated about 500 homes. And today we operate and maintain 1,954 housing units. And that the primary-- in the federal housing privatization program, the period of new construction and renovation is referred to as the IDP or initial development period. For our project, the most-- the majority of the construction and renovation activity took place starting really in 2006 through 2011.

KOLTERMAN: Is-- is Burlington Capital a for-profit company?

DOMINIC VACCARO: Burlington Capital is a for-profit company.

KOLTERMAN: Is it-- is it trading on the New York Stock Exchange? Is it privately held or?

DOMINIC VACCARO: It is privately held.

KOLTERMAN: So when you entered into that contract back in 2005, 2006, what did your pro forma look like at that date in time? Was it cash-- obviously it cash flowed real well.

DOMINIC VACCARO: It-- it did cash flow, yes.

KOLTERMAN: Because otherwise you probably wouldn't have entered into the agreement.

DOMINIC VACCARO: Correct.

KOLTERMAN: So the real need for this is because-- because of the downturn in what's happened on our military bases?

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DOMINIC VACCARO: The active-duty military population which is our primary residents at Offutt has shrunk significantly over the last now 12 or 13 years.

KOLTERMAN: So what's significant?

DOMINIC VACCARO: I think the military population was around-- active duty around 8,000 or 9,000 and today I think it's closer to 6,000 in terms of the active duty military population. Now there have been in terms of the base's total employment, including active duty and contractors, I think the level has stayed about the same. But our primary source of residents are the active duty. So that's what I'm speaking to specifically.

KOLTERMAN: Is there an incentive for them to rent your houses versus going out and buying their own?

DOMINIC VACCARO: The only incentive would be the relative proximity to the-- to the base.

KOLTERMAN: So they're on the base.

DOMINIC VACCARO: Yeah, correct.

KOLTERMAN: OK. Thank you.

LINEHAN: Thank you, Senator Kolterman. Senator Briese.

BRIESE: Chairman Linehan, thank you and thank you for being here. This restricted maintenance fund that this bill would create, what will those monies be used for?

DOMINIC VACCARO: Our intention-- our intention all along with this bill has been to utilize the difference in these savings, if you will, as a result of the homestead exemption to fund amenities and needed improvements for the long-term benefit of the military residents. And I'll explain in a little further detail two areas where that's important. When we built and did our housing development that we were just speaking of, we didn't build a swimming pool. Because on land that the government-- that the federal government maintained immediately adjacent to our land, for example, we had two operating swimming pools based on different-- of our housing areas. With federal budget cuts, those-- first they eliminated-- eliminated one pool then they eliminated the second. Other amenities similar to that had been

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cut by the base and we believe are important for the service members at Offutt to return, restore, provide things of that nature. So we intend to use this money to build a new swimming pool, splash pads, other amenities that would serve not only our residents but others associated with other members of the base that don't reside with us. I spoke earlier of-- of-- of improvements that we think we have made to this bill from LB939 last year. One of the quest-- some of the questions we fielded were geared towards our intentions as a privately held company trying to pocket, if you will, this savings. And we believe by introducing the concept of this trust fund as part of the legislation has strengthened the intention of the bill and to-- to create a more clear and direct link from reduced property taxes to direct infrastructure improvements. So the sewers, the roads, amenities, playgrounds, things of that nature which are kind of contemplated to be used from the savings in the trust fund specifically.

BRIESE: So these amenities you're anticipating, these improvements you're anticipating, those are items that wouldn't otherwise be-- come to fruition without this maintenance trust fund.

DOMINIC VACCARO: That is correct.

BRIESE: And we're not talking about using it for snow removal or something like that as per Senator McColl-- McCollister's question.

DOMINIC VACCARO: We are intending to use these funds for improvements to the hard assets. Correct.

BRIESE: Thank you.

LINEHAN: Thank you, Senator Briese. Senator Groene.

GROENE: Couple questions. If I remember from last year, snow removal is yours; fire comes from the base military fire department. Who repairs the streets?

DOMINIC VACCARO: We do that as well privately.

GROENE: So then you met with the NRD and the county and the other taxing entities, the community college and they're all willing to forgo their taxes.

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DOMINIC VACCARO: What-- we have had conversations with certainly the county, the police, the fire, Metro, yes.

GROENE: What city limits are you in?

DOMINIC VACCARO: We are not in any city limit.

GROENE: So you don't have to worry about a city.

DOMINIC VACCARO: Correct.

GROENE: And they're willing to forgo the revenue and not have the state reimburse it through the regular-- regular homestead exemption [INAUDIBLE]

DOMINIC VACCARO: That is-- that is correct. That is our-- our understanding. And as we've had conversations--

GROENE: And you said you have something in here said about if you rent it privately to let's say a military contractor is working at Offutt and they want to rent one of the facilities, then you will pay property taxes on that-- on that unit.

DOMINIC VACCARO: That is correct. The way the-- the homestead works, it's to the--

GROENE: The way this bill works.

DOMINIC VACCARO: Yes. The way this works would be specifically to the active-duty military residents. So we do have out of-- we do have a couple of hundred housing units that are occupied by nonactive-duty military members.

GROENE: And they work at the base.

DOMINIC VACCARO: Yes, yes.

GROENE: Most of them work at the base.

DOMINIC VACCARO: Most of them work at the base or maybe retirees and we-- based on this bill--

GROENE: Military retirees.

DOMINIC VACCARO: Correct-- there would be taxes still paid.

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GROENE: So no cost to the state and you're not asking any local entities to provide services.

DOMINIC VACCARO: Correct.

GROENE: Because you don't get them now.

DOMINIC VACCARO: Correct.

GROENE: The schools you'll take care by. The only one that concerns me is make sure that that-- that in lieu of tax shows up in the schools' property tax revenues and we're not offsetting it with state aid but I'll look into that. Thank you.

DOMINIC VACCARO: Thank you.

LINEHAN: Thank you, Senator Groene. Other questions from the committee? Senator McCollister.

McCOLLISTER: One follow-up question. Thank you, Madam Chair. Before I thought there was a separate funding for schools, impact aid I think they used to call it. But now you're going to provide an in lieu of tax. Did the other program terminate?

DOMINIC VACCARO: That other program did not terminate. As I understand it, the last-- since our project-- since the privatized project was created, the school district has continued to receive impact aid and in addition to that the payment for property taxes-- the school's portion of the levy for property taxes. So this has been an additional payment so they've-- they've kept federal impact aid plus now a payment from our schools. For-- for reasons that we believe are unrelated to us, I do believe that Bellevue Public Schools in particular has lost a portion of their impact aid funding. But I don't think that that in any way is related to our-- the housing project that we entered into with the government. It's a separate issue.

McCOLLISTER: The taxes that you-- Sarpy County formerly received from this area, would that roughly equal the amount of in lieu of tax that you're going to provide? Is there going to be a difference in those amounts?

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DOMINIC VACCARO: There will not be a difference between the amount the schools would have received as collected by the county. I think that's what you're referring to.

McCOLLISTER: Yeah.

DOMINIC VACCARO: Yeah. The schools, so in round numbers the schools would have received approximately \$800,000 through their portions of the levy collected by the counties and that would approximate the amount of the payment in lieu of taxes.

McCOLLISTER: How many students are in that-- in the housing area?

DOMINIC VACCARO: This is-- this is very much an estimate. If we have-- there must be probably 5,000 something like that, 4,000 or 5,000. If we have 2,000 homes, most of them occupied by families, I'm just assuming roughly 2 children per home. I could see it being 4,000 or 5,000 students certainly.

McCOLLISTER: Thank you.

DOMINIC VACCARO: One thing I will also mention is that there are two schools within our property that we may again maintain the roads for, things of that nature, for which Bellevue Public School students that live outside of our property also attend. Up to a third of the school, excuse me, a third of the students at the two elementary schools come from off-- come totally unrelated to our housing, travel through our site to those schools and attend them within the confines of our property.

McCOLLISTER: Thank you.

LINEHAN: Thank you, Senator McCollister. Other questions from the committee? Seeing none, thank you very much for being here.

DOMINIC VACCARO: Thank you.

LINEHAN: Next proponent. Good afternoon.

PATRICK ALSTON: Good afternoon, Madam Chairman, members of the committee. I'm Command Sergeant Major Retired Patrick Alston, A-l-s-t-o-n. And I will tell you it is definitely a distinct honor and privilege to be here to represent the 1 percent of our population, 300 million, only 1 percent would ever don a uniform to get the

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opportunity to represent them at this forum today. I do not take it lightly at all. I would tell you that 23 years ago the armed forces made a distinct great decision in privatizing housing. Prior to that-- I've been in the military for 36 years so I've been on both sides of the fence-- and I would tell you that prior to that the housing we had were good housing. It was good housing. I would not tell you that the housing was bad because the government ran it. But what we have today for our young American sons and daughters who raised their right hand to stand in harm ways is untouchable. It is untouchable. Regardless of what you may have heard or saw in news clips, the housing to me is unapproachable. It is the best thing the government has ever done for us. But I will tell you 23 years ago or in 2005 when several of these organizations decided to add in to this process, they were able to simply sustain great housing. But as you know over the course of time-- we're talking about some 14 years ago-- things have changed. And the ability to sustain and continue offering that level housing to our American sons and daughters have become expensive and it became hard to do. And that's the reason why we have some of the news clippings that we're having today about erosion of the housing. I think it is important that we understand that this bill will not only give this organization the opportunity to improve, sustain, and better housing that they offer to America's sons and daughters but it gives them the opportunity to do it over the course of the 50-year lease in which they have. Our young American sons and daughters deserve this each and every day. Freedom in this country only reign because they decided to stay they will stand in the gap. So please as you stop and think about this bill, think about this bill as being a bill that will not only enhance their ability to do what they're charged to do but also give them the peace of mind as they're in harm's way to know that they're family members of living in conditions that's doable for what they're doing for our nation and that's defending it each and every day. I'm standing by for any questions that you may have.

LINEHAN: Thank you very much, [INAUDIBLE] Sergeant. Are there questions from the committee? Senator Groene.

GROENE: Did you say you're active or retired?

PATRICK ALSTON: Retired. I did 36 years, 6 days, 2 hours and 29 minutes. [LAUGHTER]

GROENE: So are you staying in Nebraska?

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PATRICK ALSTON: I am presently in Nebraska and in Georgia both, so correct. I'm-- I'm living the dream in Nebraska in the winter and living a dream in Savannah, Georgia, in the summer. [LAUGHTER] I don't know what I'm doing.

GROENE: Unrelated, but do you pay taxes here or in Georgia?

PATRICK ALSTON: Both.

GROENE: Oh, you do.

PATRICK ALSTON: Yes, sir.

GROENE: All right. On the income tax side of it, another bill, unrelated.

PATRICK ALSTON: Oh, OK.

GROENE: It's related, but not--

LINEHAN: Thank you, Senator Groene. Other questions from the committee? Seeing none, thank you very much for being here.

PATRICK ALSTON: Thank you.

LINEHAN: Other proponents. Are there any opponents? Anyone wanting to testify in a neutral position? Good afternoon.

JON CANNON: Good afternoon, Madam Chair, distinguished members of the Revenue Committee. My name is Jon Cannon, J-o-n C-a-n-n-o-n. I'm the deputy director of the Nebraska Association of County Officials, and we are here to testify today in a neutral capacity on LB444. First and foremost, I'd like to thank Senator McDonnell for bringing this. This is an important conversation for us to have regarding the treatment of military housing in our-- in our state, and I think it's-- it's opened up a very good avenue for discussion. There are a few things that I want to bring to the committee's attention and have you perhaps consider before we necessarily go down this particular road. The homestead exemption is authorized by Article VIII, Section 2(11) of the Nebraska Constitution which refers to the Legislature having the power to grant a homestead exemption for homesteads actually occupied as a homestead by any class-- classification of owner as the Legislature determines. And I think it's important to really parse those words when we're talking about whether or not that should apply

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to this particular class-- classification of owner because what we have is the ownership is going to be with a corporation, the occupants are going to be with someone else. The question that-- that arises that I want this committee to consider is whether or not that would be a reasonable classification for the Legislature to make it. It's-- it's all well and good to say that we're going to have targeted property tax relief. I think everyone is in favor of it, particularly for this classification of-- of unit dwellers. However, it doesn't do us any good to have something which potentially down the road could be taken away because the court has said that it's not a reasonable classification. Related to that is the expansion of the term "owner," whether-- whether or not that's part of a reasonable classification. Also I'd like the committee to consider what the unintended consequences will be. What we have for an owner we talk about military members and their family as being the occupants. And the question would be whether or not-- I think I'm covered because my parents were both retired Air Force officers. But what about the person that says Well my great-great-grandfather fought in the Union Army in the Civil War. Is that a family member or not? So that-- that-- the definition could probably be tightened just a little bit. The other question becomes what about those military families that are living off base that are not on federal-- in federal housing or housing that's on federal property but those persons that are living off base in an apartment complex because they just chose to live in an apartment complex? If I as an apartment owner can show or demonstrate that I've got a large number of military families living in my apartment, am I going to come to this committee next year and ask you for an exemption as well? And would that be a reasonable classification? Another thing I'd like you to consider is the occupancy requirement that is in the bill. There isn't a particular date that it's tied to. For the rest of the homestead exemption program, you have to actually own and occupy the property between the dates of January 1 and August 15. Why August 15? Because on August 20 is when we certify all of our values to the political subdivisions. In this case, there's not a value certification that seems to be going on, but it's an important consideration for this committee to take under. Also there's a question as to the services that these military families are going to be using of the county's. Presumably, they'll all be registered to vote in Sarpy County and therefore they'll be making use of the services of the election commissioner. Presumably, they'll have their license plates-- probably their car is titled in Sarpy County. They'll be making use of the Treasurer's office as part of the DMV. They'll be

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making use of the sheriff's office. They'll be making use of the emergency-- emergency management services. But all of these services that are going to be provided to them as residents of Sarpy County are going to be unreimbursed as part of this bill. Another question that we would have that we'd ask the committee to consider is how are the nonmilitary occupants going to be identified? Is there going to be a partial exemption that's granted based on the number of units that are occupied by military members or their families and nonmilitary members and their families? That definition probably needs to be worked out as well. And then the last thing that I would probably bring to this committee's attention is the fact that we're really going beyond talking about a homestead exemption. And in the conversation that we've heard so far, we've been using the term "payment in lieu of taxes." Those are two different things. And I think that it's important for the committee to consider what this committee's record is going to reflect if anyone has the opportunity to actually parse the meaning of the statute. We might suggest that 77-202 is the general exemption statute that is used for providing exemptions in the state, and perhaps it would be worth our while to also examine whether or not we can fit an exemption under there. I have nothing further. Again, thank you, Senator McDonnell, for bringing this important piece of legislation. I'd be happy to take any questions you might have.

LINEHAN: Thank you, Mr. Cannon. Are there questions from the committee? Senator Groene.

GROENE: The in lieu of tax, who would send out the statement? How would that be kept? Who would keep track of that?

JON CANNON: Senator, I don't know. Ordinarily a payment in lieu of tax is handled through the county treasurer's office. But with this particular subset as we've-- as has been drafted, I don't know how that would be handled. It's a mechanism that would probably have to become-- that someone would have to come up with at some point.

GROENE: So in lieu of tax the county assessor normally puts the assessment or the treasurer sends out a statement just like a property tax and says you owe this much in lieu of tax for whatever. I know there's some infrastructure by certain utilities and stuff.

JON CANNON: Sure and we have different types of in lieu of taxes as well. Some of them are like with Game and Parks we have in lieu of tax. What would you have paid if this was-- if we were imposing a

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property tax on you? For public power, the in lieu of tax is what were you paying in property taxes in 1955? So it really just depends on-- on how that's structured.

GROENE: It's based off 1955.

JON CANNON: Yes, sir.

GROENE: You're not paying the same amount I hope.

JON CANNON: No, sir. You're-- they're paying the exact same amount of-- they're-- they're paying in lieu of tax based on what they paid in-- yeah, I think it's 1955. I could be off by a year or two.

GROENE: Did you hear that, Senator Briese?

JON CANNON: Now I'm worried, Senator.

GROENE: But there needs to be something in here that somebody assesses that in lieu of so it's documented and the school knows it's coming and how much it calculates it, shouldn't there be?

JON CANNON: Yes. If that's the route that you go, yes, sir.

GROENE: Otherwise, I don't know how you'd do it.

JON CANNON: I don't either, sir.

GROENE: All right. Thank you.

JON CANNON: Yes, sir.

LINEHAN: Thank you, Senator Groene. Other questions from the committee? The sheriff doesn't patrol these homes, right? You said what about the sheriff services.

JON CANNON: I don't-- I don't know if they patrol the homes necessarily. My expectation is that if there were some sort of-- something that required law enforcement that probably the sheriff is going to have jurisdiction.

LINEHAN: On a federal base?

JON CANNON: I'm not entirely certain of that, Senator but I'd be happy to get that information to you after I find out.

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LINEHAN: OK. Because I think what Mr. Dom-- Mr. Vaccaro said was that they have-- the police and the fire is handled by the military. But maybe Senator McDonnell can address that when he comes back up. So Sarpy County doesn't do the roads.

JON CANNON: No, ma'am.

LINEHAN: And the sheriff's question, well, they don't do the fire because the military does it. So-- and the schools are covered.

JON CANNON: Yes, ma'am.

LINEHAN: So the two services you're worried about that they're not paying their share on would be the DMV, and I'm not sure you're right. I don't-- I don't know about where they vote because I assume a lot of them keep their election voting where they-- their hometown.

JON CANNON: That depends. Some--

LINEHAN: Right, it does depend but--

JON CANNON: Yes, ma'am.

LINEHAN: It wouldn't be-- I mean a lot of them vote in Florida or Texas. Or my son was military. He always voted Nebraska because that's where he's from.

JON CANNON: As he should have, ma'am.

LINEHAN: Thank you. Other questions from the committee? Thank you very much for being here.

JON CANNON: Thank you.

LINEHAN: Anybody else in neutral position? Senator McDonnell, would you like to close?

McDONNELL: Just a follow-up on a couple of things if you-- Senator Groene's question about payment in lieu of taxes. Actually if you turn to the bill on page 5 and you look at the idea starting with-- with line 12, that money for the schools is going to go to the county. The county is going to pay the school districts. So they are going to-- that's-- that's the money that's going that I think I believe earlier Senator McCollister was asking also about some of the infrastructure deals. That's going to be part of-- of the infrastructure and the

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trust fund. So you've got two different things going on here. But the money that is actually going to go to the schools will go through the county and then go to the school district. Does that clarify that?

LINEHAN: Yes, Senator Groene.

GROENE: But is the county required to send out a tax statement as normal?

McDONNELL: If you look--

GROENE: [INAUDIBLE]

McDONNELL: Yeah, if you look at the kind of the checks and balances on this with the-- with the Department of Revenue with the trust fund but also with the normal taxes because if you-- if you look at how many houses they have, let's say they have 2,000 roughly. There's going to be an X percent taken off of there that-- that are not occupied by anyone and then possibly are not occupied by the military. Then they have to make sure the Department of Revenue understands that.

GROENE: You mean the county.

McDONNELL: The county understands that; but when it comes back to the trust fund, the Department of Revenue actually oversees that for the maintenance. So you got two different things going on. The schools are made whole. There is no money being lost by the schools. Now prior to 2005, the schools were receiving nothing. The county was receiving nothing. Then this turns into the-- the idea of the privatization with the Military Housing Privatization Initiative and now, all of a sudden, there's money going to the schools. There's money going to the county. But the services for the county are not being provided back to the military base because remember, the land is still owned by the Department of Defense. It's still owned by the government. Now you have a privatization where the companies are coming in in 2005 and this all goes back to 1996 where you have 300,000 housing-- houses throughout our country ser-- that are people that are serving us in the military and their families are living in and 200 of them-- 200,000 of them have an issue. So now they come up with this. And now here we look at in 2006 coming back to Offutt Air Force Base and all the great things that have happened because of this privatization. You have 900 new homes. You have 500 homes that have been improved upon. But now we're looking at a situation to where the money that is going to the county for the services, those services aren't coming back to

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the military base. But in this bill you're going to have every dollar that the schools would normally receive is going to go through the county to the school districts and be paid. The next step is going to be-- it has to do with the infrastructure fund and that's going to be overseen and there's steps that-- that you have to go through based on the Department of Revenue. Now if they don't follow those steps and they don't follow it and use that money appropriately, then it's going to go to the Attorney General. Then the Attorney General is going to say there could be an audit. It's spelled out clearly in here if you look at the bill and you look at page 6 of the bill and how it goes through the Department of Revenue. They make sure that the certification of compliance, if that's not happening then a failure to file with the Department of Revenue, you're going to have the Attorney General get involved and you're going to have an audit. Then it's going to be revoked. And at that point if it's revoked, they have no-- no-- no comeback for at least two years to reapply. So this has been, I mean, a number of people working on this, a number of senators' input what we had discussed last year. But we have a situation here where the schools are going to be made whole. They're not going to lose a dime. We have the money that was going towards the-- to the county that is going to be put in a trust fund for the infrastructure and that's going to be made sure that that money is being spent on the infrastructure. So earlier I believe Senator Kolterman had a question about the idea that based on Burlington Capital and possibly their business plan. Burlington Capital, not one dollar of this money is going to go to Burlington Capital. This is going to the infrastructure to schools and the infrastructure for the people that are serving us and their families that are left behind while they're serving us. So I know it's a little different than possibly some-- some things that have been done in the past that we talk about. But the idea that we still had a problem, we still want to support our military personnel and their families, and this is an opportunity to make improvements without taking a dime away from the schools and also making sure that we have the trust fund that is overseen by us. It's being spent the right way. If it's not, it will go through the Attorney General's Office. There will be an audit and they'll be-- they'll be dealt with appropriately. But there's checks and balances on this. But I don't want anyone to be misled with the idea that possibly this money is going to-- directly into the pockets of a private company. That is not happening. That's not the way this bill is written.

LINEHAN: Thank you, Senator Groene. Senator Kolterman.

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KOLTERMAN: Thank you, Senator Linehan. But, Senator McDonnell, the reason for my questioning is Burlington Capital entered into an agreement with the Department of Defense to do this. They did that based on a business model. If-- if-- maybe they're not directly getting the benefit of this; but they would-- they would receive the benefit because they don't have to pay the property taxes. And even though that's going back in, it does affect their bottom line. And, I mean, maybe it was a business decision that went bad. But are we, as taxpayers of the state of Nebraska, expected to bail that out?

McDONNELL: Well, I think, you know, if you look at it it's 1996, you got the Military Housing Privatization Initiative and they put things in place to where what company is possibly going to get this-- this bid for-- for managing it? Now if you think about now 2005 we're looking at the idea of prior to 2005 there's no taxes being paid on that property. Then 2005 hits, we start and follow the Military Housing Privatization Initiative. Now taxes are starting to be paid into Sarpy County in the area, but there's no services coming back. Now think about that. With a business plan, I don't believe that Burlington Capital had a bad business plan. Because if you look at 900 new homes since 2005 and 500 renovated out of the total of 2,000, we have made improvements for the people that serve in the military and their families. But the idea of also having paying taxes now to a political subdivision and not getting any services that's-- that's different. And I don't think someone can look at that as having a bad business plan. The only thing they're asking for is that money to go back into the infrastructure that they currently are paying taxes on except for the schools. The schools, that money would still be paid to the county. The county would still pay that to the school district. Then you have the remainder of the money that is being taxed and being put into the county that's going to be put into the trust fund for the infrastructure and go to help those things that help that-- those military families have a better living situation.

KOLTERMAN: Can I continue?

LINEHAN: Yeah. Yes.

KOLTERMAN: But at the same time by their own description, the reason their business plan went the opposite way is because of the downturn in-- in the-- in the enrollment and the downturn and cutting back on the bases. Now that, in my opinion, that's the Department of Defense problem, not the state of Nebraska problem. And I'm not saying I'm

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against this necessarily. But I'm just saying should private business benefit at the expense of taxpayers? And I think that's a little bit of where the, you know, the county governments were coming in at because where do you start and where do you stop? I mean, we're-- we're sitting here looking at property tax relief. Now all of a sudden we want to put another million three into the relief. Do you get where I'm coming from?

McDONNELL: And I understand your point about if-- if-- is it on the federal level there has been cutbacks. But what I'm trying to differentiate here is that the money that's being spent in taxes to the schools will-- they'll be made whole. The money that's being sent then right now to the county for those services that they're not receiving, they are not receiving the services back for the tax dollars they're spending, to keep that money on the base to make those improvements of the infrastructure. Because remember, Burlington Capital is taking care of the idea of the streets, the snow removal, those-- those expenditures with fire and police.

KOLTERMAN: But again, that-- that all fed right into their business model from the get-go. And had the Department of Defense not decided to privatize this, they were paying all the expenses. It was coming out of our federal income tax. To now we switched it and we're putting it on the burden of the state property taxes or the state of Nebraska.

McDONNELL: And I--

KOLTERMAN: It's just a matter of how-- how do-- how much do we do? I mean, we also have a bill here to exempt half the retirement income. I mean, I'm not-- I'm not against any of that. But the realization is you only have so many dollars in the state coffers. And you're on Appropriations. You understand that as well as I do. And again, I'm just bringing this up. Maybe I'm being devil's advocate. I'm not antimilitary by any means.

McDONNELL: No, I know you're not. And I appreciate the conversation. But also I want to make sure that this doesn't sound like it's a bad business plan because of the 900 new homes and the 500 homes that have been improved upon. But at the same time, has there been cutbacks at the federal level? But I think we're getting too far off the idea that with this bill what we're making sure is that the schools remain whole. But the money that's going to the county for services that none of those services are coming back to the base we're saying also, well,

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that's not right. We're saying that that money should come back to the base but it also should not go back into the company. It should be held in the trust, infrastructure improvement trust and overseen then by the state. So this is not a-- I want to make sure this is not looked at as a windfall for a private company. It's not. This is money that is actually being spent that will be spent on the infrastructure of the base property for the military and their families.

LINEHAN: Senator-- thank you, Senator Kolterman. Senator Friesen and then Senator Groene and then Senator McCollister.

FRIESEN: Thank you, Chairman Linehan. So we-- those of us who have been on the Revenue Committee in the past, we've-- we've talked about this issue before. And we all fully agree that you're paying for services you're not getting, and you're trying to get the money diverted back. The question I have now just listening to the debate is you're talking in lieu of taxes, but what value are those homes? What is it based on? Is it based on the pricing in 1955 or is it current values or what are we-- when they privatized it, what value is placed on those homes?

McDONNELL: Are you asking the privatization came into effect in 2005. Is it based on 2005 or current? I believe it's current, but I will find that out.

FRIESEN: OK. And then another and I just-- in the value of those homes are they counted in the school districts? Is that value counted as a resource under TEEOSA? I mean, is it a value? And so, I mean, otherwise I-- I get the rest of it I understand because there are a lot of services that were not being provided to that area that you were paying for. I fully get that. So those are just a couple of questions I have on value; and if you want to get that back to me, otherwise I think everything-- your amendment now takes away the fiscal note and so it is no cost to the state.

McDONNELL: Yes.

FRIESEN: OK.

McDONNELL: And we'll get you those questions answered.

FRIESEN: Thank you.

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LINEHAN: Yes, Senator Groene. Thank you, Senator Friesen. Senator Groene.

GROENE: Thank you, Chairman. Normal house-- housing is assessed and statements sent out on individual homes. There's 2,000 homes here. And it makes it sound like they're getting one tax statement for 2,000 homes. So the whole thing is valued as an entity?

McDONNELL: Minus looking at that--

GROENE: Presently, I am talking presently.

McDONNELL: OK, presently. So if you had the 2,000 homes, the exemption is not on those that are occupied by civilians are not occupied.

GROENE: But what I'm asking, they get 2,000 homes, \$200,000 apiece; \$4 million or \$40 million, whatever that adds up to, they get a statement assessment of \$40 million

McDONNELL: OK.

GROENE: And they get one tax bill. So if they add a few more homes or tear a few down, the assessor comes out and assesses the whole thing?

McDONNELL: I believe on the number of homes, is that what you're asking?

GROENE: Well, on the tax statement. It's written as the description is the entire 160 acres and whatever it is and there's-- and it doesn't list the homes. It just puts a value on the whole project.

McDONNELL: No. That's what I'm saying. Because if you look at it in the bill on page 4 where, you know, we have the exemption and then you-- and then we have the except-- except for those houses that are not occupied by the military or they're not occupied at all. Those are not going to be part of the exemption. So I don't know if I'm making it more confusing. But if you look at the language, we're making sure that if there's 2,000 homes and let's say there's 1,700 of them that fall under the exemption, but the exception would be those 300 that are not occupied, or not-- not occupied by anyone or not occupied by military personnel or their families.

GROENE: I just didn't know how the percentage worked if-- if each home was now sent a tax statement. But they're not. It's one big project,

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one big lump sum. But who-- not that anybody cheats on their taxes-- but who verifies when they send the statement in on January 1 how many homes are sitting empty and how many-- how many weren't military people living in the homes? Does the assessor have the ability to go out and do an audit or?

McDONNELL: Well, we do. Yeah, we do talk about the assessor in the language with the county assessor. If you look at-- looking at line 8 of the bill and you look at on page 5, you know, provide January 1 of each year and shall provide the percent to the county assessor as part of the application filed pursuant to Section 77.

GROENE: But it's a-- it's a Boy-- Boy Scout honesty thing. They-- they send a percentage in on a report.

McDONNELL: If you're asking can the county assessor enter federal property, I'll get that answer for you.

GROENE: Do they have to list which units there are empty and which units have a-- have a-- somebody that's a contractor and isn't an active duty so if the assessor wanted to do a spot check they could do it?

McDONNELL: Well, I'll ask and, again, can the county assessor go on to federal military property? I'll ask that question and get an answer for you.

GROENE: Well, if it's in statute that they can do that check.

McDONNELL: They can definitely do the check. I don't know if you-- I don't know if I'm not answering the question. Can they physically go onto the property?

GROENE: Statutorily, which address-- which address has-- is empty on January 1; which address has a civilian living in it so if they wanted to do a spot check they could knock on that door and find out?

McDONNELL: I understand and I'll-- I'll find out.

GROENE: It's just a bit of accountability that I-- otherwise, I, you know, I see your point. It's just-- thank you.

LINEHAN: Thank you, Senator Groene. Senator McCollister.

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McCOLLISTER: Yeah. Thank you, Madam Chair. Section 3 of the bill follows the serviceperson. And apparently from my reading of the bill, it's the obligation of a serviceperson to contact or at least make a homestead exemption application and send that to the Department of Revenue in Nebraska. Isn't that correct?

McDONNELL: You're on-- can you reference-- you're at page 2 of the bill? The beginning of Section 4 where it actually changes it?

McCOLLISTER: Section 3 starts--

McDONNELL: Page 3? I'm sorry.

McCOLLISTER: I'm getting there. Had it before. Yeah. It's before page--

McDONNELL: Are you possibly talking about page 2, line 18 where it says "a dwelling complex"--

McCOLLISTER: No.

McDONNELL: --"and any related amenities"?

McCOLLISTER: No, I'm not. It's on-- Section 3 is on the bottom of page 3 of the bill. I'm fairly sure that you have to contact the Department of Revenue to get your homestead exemption. And you don't do that through the county, correct?

McDONNELL: I'm still trying to locate where you're 'cause I'm going off of page 2, line 18. But you're on-- you're on page 3.

McCOLLISTER: Bottom.

McDONNELL: Line 16, "A resident of a dwelling complex."

McCOLLISTER: Starts on page-- on line 25. You know, regardless, but I think you do have to give that exemption through the Revenue Department. Correct?

McDONNELL: I will find out for you.

LINEHAN: I think with help of legal counsel here, I think that where you need to go is page 5, line 10. It's the record title owner of the

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homestead. So they're the record-- so the private company would be the record title owner of the homestead.

McDONNELL: Page 5, line 10.

LINEHAN: Yes.

McCOLLISTER: So who exactly makes that application for the exemption?

McDONNELL: The record title owner of the land. That's I-- that's how I believe it would work.

McCOLLISTER: OK. And that's based on a calculation once a year?

McDONNELL: It's based on if you look at the remainder of the language when the time is in the timeframe when it's due. But yes. And earlier it was talked about different timeframes for the exemption. This is different it's based on one day.

McCOLLISTER: Right.

McDONNELL: Earlier with the testimony there is a window they go on. This is based on one day.

McCOLLISTER: Well, that's-- could be a bit problematic because people-- service people move when they get orders and, you know, which at the end of December when you make that calculation, it could have changed three or four months later considerably.

McDONNELL: Yes, definitely. And that's why we're looking at it as-- as one day with the idea of also the housing that's-- that's not being utilized by military personnel are not being occupied. Thirty days later it could have gone from possibly 1,700 of the 2,000 homes now up to 1,900 that are now occupied by military personnel; or it could have gone the other direction, but it's based on one day.

McCOLLISTER: OK. So if I understand the cash flow in this-- this situation, money comes from those occupants in those homes, whether they're service members or not. Correct?

McDONNELL: Well, the idea that they're not paying those taxes, it's the idea that-- that who's paying the taxes is based on Burlington Capital.

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McCOLLISTER: OK. So does Burlington Capital receive monies from the federal government to help compensate, which I think is going to be a deficiency that I don't think the service members or the outside residents, I don't think that money is going to be sufficient to pay into the infrastructure fund, the in lieu of tax, and everything else. So there's got to be another flow of money somewhere. Correct?

McDONNELL: Correct. If you're saying right now-- to answer if Burlington Capital's cash flow is coming from possibly somewhere else, what I'm concentrating on and what we're trying to look at is currently the money that Burlington Capital is paying to this in taxes, the schools would be made whole and the money that was being spent or given to the county, paid to the county would be put in an infrastructure trust fund and make sure it's being spent on the infrastructure. It's not being given and in any way, shape, or form to Burlington Capital.

McCOLLISTER: Right. I understand that. Does that fully compensate those entities for the monies that they're going to receive?

McDONNELL: Oh, I don't believe so. No, no. Is this going to be-- does this bill fix all of our problems with the infrastructure? No, I don't believe so. I believe it takes a step towards fixing the infrastructure for the military service people and their families. But do I believe this will fix this, a magic bullet? Absolutely not.

McCOLLISTER: Thank you.

LINEHAN: Thank you, Senator McCollister. Other questions from the committee? I assume since Sarpy County is not here, Sarpy County--

McDONNELL: We have worked well with Sarpy County since last year at this time. And we believe that they are in a position right now where they're-- they're not here to testify, of course, so I'm not going to speak on their behalf. But we have worked well with them on trying to improve this bill. But I'm not going to speak on their behalf.

LINEHAN: Any other questions from the committee? We do have letters for the record: proponent, Stanley Rasmussen, Department of the Army; opponent, none and neutral, none. So with that, unless you have anything else, we close the hearing on LB444.

McDONNELL: Thank you.

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LINEHAN: Thank you very much. We will open the hearing on LB420.

BOLZ: Good afternoon Revenue Committee.

LINEHAN: Good afternoon. Thank you for being here.

BOLZ: Sure. I am, Kate Bolz, that's K-a-t-e B-o-l-z, and today I bring you LB420, the Property Tax Circuit Breaker Act. I introduced similar legislation before and pleased to continue the dialogue about this concept. LB420 creates targeted property tax relief for agricultural and horticultural property taxpayers and residential property taxpayers including renters. It uses the Property Tax Credit Fund and creates a circuit breaker refundable income tax credit. In other words, it's-- it's envisioned as an alternative to the property tax credit program that is more targeted based on those who might need tax relief more. And that concept of a circuit breaker is that when your property tax burden hits a certain level as compared to your income, a circuit breaks and you get a refund through the income tax system. LB420 addresses the tension between rising residential tax and property taxes and stagnating incomes. Essentially, if property taxes are too high in-- proportionate to income, the circuit breaks and we provide an income tax credit for residents, renters, residential property taxpayers and small and modestly sized farm operations. This strategy offers targeted and meaningful relief that creates stability for homeowners and renters and all communities of all sizes across the state. The bill seeks to relieve the burden on those who can least afford it. Currently, 18 states use this strategy to provide tax relief that reduces property taxes while remaining more focused on fiscally measured approach. The relief is targeted to modest and middle income residential property taxpayers, individuals and couples earning just over the median income, \$50,000 for individuals and \$100,000 for couples and includes renters and uses the economic assumption that 20 percent of what renters pay goes towards their landlord's property taxes. It applies to farm operations earning less than \$350,000. It kicks in when the property taxes exceed 7 percent of farm income, roughly double the national average. The credit is also more meaningful than the property tax credit program offering about 12,000 to 300,000 for residential property taxpayers. It also is more meaningful for agricultural and horticultural property taxpayers because the existing dollars will be shared among fewer but more targeted operations. Furthermore, the bill interacts with the homestead exemption. A property taxpayer who qualifies for the homestead exemption could still qualify for the circuit breaker. The

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circuit breaker is calculated on actual taxes paid which happens after the homestead exemption is taken into account. This is like the homestead exemption in that it is targeted, but it is different in that it uses an income tax credit. The homestead exemption offers a percentage of relief on a property tax bill based on income. For example, 60 percent of the value of the maximum exempt value of the homestead for income up to 33,000 with some calculations. LB420 targets property tax relief to those who need it more, both residential property taxpayers and modestly sized farm operations. I want to address three issues that have come up in the past, briefly. First, one challenge or question that has come up as related to providing property tax relief through a circuit breaker model is the question of the uniformity clause and other-- in other words, the uniformity clause in the constitution that, of course, the Revenue Committee is very familiar with, saying that we have to treat land equally. LB420 is consistent with this provision because it provides for a refundable income tax credit. The property remains valued uniformly. The income tax structure treats it differently. I have requested and I did receive an opinion from the Attorney General on this issue that generally concurs with the idea that a property tax circuit breaker is in fact constitutional. Be happy to share that with you. I don't want to oversimplify any Attorney General Opinion, but the general perspective was that this indeed could be done under our constitution. And as I said, several other states, including Wisconsin, have a similar uniformity clause in the constitution and have a property tax circuit breaker. The other issue I wanted to bring up was that I wanted to clarify the capped amounts. You might ask why place a cap higher for residential property tax relief than for agricultural and horticultural property tax relief. It's because residential taxpayers paid 45 percent of the property taxes in 2017, and agricultural and horticultural land paid 30.6 percent. So the ag cap is at 107.6 and non-ag--107.6 million and non-ag is at 82.7 million. So I realize that there are a few moving parts on this bill. I'd be happy to answer any questions. I think the fact sheet provides some additional information. I'll leave it there and let the committee dialogue if you'd like.

LINEHAN: Thank you very much, Senator Bolz. Are there questions from the committee? Senator Friesen.

FRIESEN: Thank you, Chairman Linehan. I mean, I like the premise of the bill. I mean it's always what we've said it's not based on your ability to pay is to pay the income taxes. When I look at-- when I

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look at the numbers and not knowing the dollar amounts involved, I guess, when I look at farm income as low as it is, some of the analysis I've seen somewhere shows that, I mean, the rebates are going to be pretty sizable. And so the amount allocated here is not going to be large enough to pay all that. Or are there caps on what each individual person can receive whether a land owner or homeowner?

BOLZ: So if you want to take a look at your fact sheet, there's a little chart there that shows the amounts. It might-- there was a lot in your question, so maybe I'll give you an example and we can take it from there. So an example would be a couple that owns agricultural land earns \$85,081 and pays \$50,033 in agricultural land property taxes would receive a \$44,7-- \$44,777 income tax credit under LB420, or proportional amount if the credits claimed exceed the cap. So the point is that because we are targeting the existing dollars in the property tax credit program to a smaller group of property taxpayers, the-- the benefit becomes more meaningful. I'm not precisely sure that that's exactly what you're asking, but that's what I'm arguing.

FRIESEN: So we'll apportion it according to what revenue is available and it will be downsized accordingly.

BOLZ: Right.

FRIESEN: Next question was I know you have a renter's credit for residential homes, but you don't have a renter's credit for people who rent farm ground.

BOLZ: Oh, that's correct.

FRIESEN: Because there's, I think land right now across the state would be-- I think the average is 50-50 whether it's owned or rented. I was just curious if there is any thought.

BOLZ: That's-- that's a fair point. I-- I don't recall ever having that conversation before. I think that would maybe be worth some further conversation. Some of the argument is that a-- a residential renter will by default be paying a part of the property tax for-- for the property. I don't know the details of how renting farmland precisely would work and whether or not the same assumption applies. So maybe that's something you can educate me on.

FRIESEN: To me a cash rent-- both parties are paying in, so to speak, the cost of owning that home, so, I was looking at it, I guess, from

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that aspect that the cash rent for whether it's a home or for land would be looked at the same. Your costs that you're having to pay should-- I would assume the owner of that property is going to reflect that in the rent paid.

BOLZ: Yeah. I'd be happy to continue talking about that. I think we'd just have to think it through a little bit because I wouldn't want there to be a contract relationship setup so that they can subvert the intention of the Legislature.

FRIESEN: Right, you don't want both collecting.

BOLZ: Right.

FRIESEN: OK. Thank you.

BOLZ: Thank you.

LINEHAN: Thank you, Senator Friesen. Are there other questions from the committee? Senator Briese then Senator Crawford.

BRIESE: Thank you, Chairman Linehan. Thank you for bringing this, Senator Bolz.

BOLZ: Sure.

BRIESE: The question I have is we try to determine, try to make estimates on what this actually does. You know, we talk about prorating the amounts because of-- for example, in ag land because of a \$107 million cap. Do you have any estimate of all ag land taxes paid in Nebraska? What-- what percentage of those would be eligible for this credit? You know, the example you gave was a \$44,000 credit. Obviously, that gets diluted because of the cap and the proration. Any way we can estimate that?

BOLZ: It's a-- it's a fair question. I can-- I don't have it at my fingertips. We can look for it. Your question, as I understand it, is what percentage of ag taxpayers would benefit from this?

BRIESE: Yeah, and I think if you could arrive at that percentage, you could kind of probably estimate how much each individual's potential credit is diluted because of the preparation I would think.

BOLZ: Sure. And-- and I-- I don't-- I don't want to misinterpret what you're saying but I think part of the idea here is that if you are

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making this essentially a means-- changing this to a means tested program, that the level at which you set-- set the mean-- the means, how you qualify, whether you're eligible or ineligible is more meaningful than what percentage of property taxpayers do or don't get the credit. Is that-- is that a logical argument.

BRIESE: Yeah, I think so. But there would be a percentage, you know, ag land taxes, for example, I think they pay about one-- we pay about 1.2 billion annually. There'd be a percentage of that that would not qualify for this credit because with the income limitation, etcetera, and other reasons--

BOLZ: Right. That's right.

BRIESE: I don't know if that would be 10, 20, 30, 40--

BOLZ: Sure.

BRIESE: If that would help on--.

BOLZ: Sure.

BRIESE: If we had an estimate on that.

BOLZ: Sure. I'd be happy to look for it.

LINEHAN: Thank you, Senator-- I'm sorry, what-- thank you, Senator Briese. Senator Crawford.

CRAWFORD: Thank you, Chairwoman Linehan. Thank you, Senator Bolz, for bringing this bill. I just want to clarify, I think that I understand you to say that the monies for this fund come from the property tax relief fund. So I was curious when I saw that the fiscal note has a revenue loss of a \$190 million, where that comes from.

BOLZ: Right. I should have-- I should have been more clear in how I was describing it. This is an envisioned-- envisioned as an alternative to the property tax credit program. It's an alternative idea. I brought this bill twice before. We have-- we wrote it this way this time to give you kind of a clean understanding of what the concept is and how it would work and whether or not this is a correct policy argument, rather than kind of muddying the waters, because in the past people have misunderstood whether or not that would mean that the property tax credit program goes away completely. How that will

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work. And the--my goal has always been to say you could use the existing dollars from the property tax credit program and that helps you build the logic train for why this bill makes sense. You could do both. You could change the way that you use the property tax credit program and in a number of different ways. But I didn't, especially for the commercial representatives who are-- who benefit from the property tax credit program. We didn't want to give the impression that we were eliminating it.

CRAWFORD: I hear you. Thank you.

LINEHAN: Thank you, Senator Crawford. Are there other questions from the committee? Do you have a cost? There were no caps on it. If we didn't cap it at \$190,000 in revenue what-- if you just-- this was the law and everybody that qualified could get their refund, was there anybody run the numbers on that?

BOLZ: I think-- I think we worked it, and-- and the people who did the math are OpenSky, and they're behind me, so they may have a better answer. But I think the way that we did the math is we said if we-- if we put these two caps on place-- in place, so the caps represent the amount of the property tax credit that went to non-ag land and ag land through the-- through the property tax credit program. We kind of worked backwards from there.

LINEHAN: OK.

BOLZ: Versus doing it the other way around, which I think is some of what you're asking.

LINEHAN: And is there some limit on how much property you could-- is there a limit like if you've got more than a million dollars' worth of property, you don't qualify, or \$2 million or \$3 million or is there some limit? Like on the homestead exemption, the house is over \$150,000 and you don't-- you don't qualify, because you've got too much property. Is there some kind of limit in this?

BOLZ: That is--

LINEHAN: It's OK if you don't--

BOLZ: It's an excellent question. I don't think that we put that sort of limit in. It's certainly worth contemplating. In other words--

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LINEHAN: I'm not saying it's a good idea, I'm just asking a question.

BOLZ: But the question is, if you're asset rich and income poor what's fair? Yeah, that's a fair question. And I don't think there's any-- I can read through the bill again in a little bit more detail. I don't think we've put any limits on how much in assets you could own.

LINEHAN: OK. Thank you.

BOLZ: Thank you.

LINEHAN: Other questions? Thank you very much. You'll be here to close? Perfect. So proponents?

TIFFANY FRIESEN MILONE: Good afternoon, Chairman Linehan and members of the Revenue Committee. My name is Tiffany Friesen Milone, T-i-f-f-a-n-y F-r-i-e-s-e-n M-i-l-o-n-e, and I'm policy director at Open Sky Policy Institute. I'm here today to testify in support of LB420 because property tax circuit breakers are an effective way to provide targeted tax reductions to those whose property taxes are high in relation to their incomes. As shown in the handout, the residential circuit breaker is available to taxpayers who rent or own their primary residence in Nebraska and have an adjusted gross income less than \$100,000 if they are married and filing jointly, or \$50,000 for all or other types of filers. For homeowners, the credit calculation is based on their property taxes paid on their home value up to 200 percent of the county average assessed value for a single family home. For renters, the credit calculation assumes that a portion of their rent, 20 percent in this case, is passed on to the property taxes paid by the property owner. As income increases, LB420 circuit breaker credit calculation assumes that taxpayers can afford a greater percentage of that income towards property taxes. For a taxpayer who meets the income criteria, the amount of the refundable income tax credit is equal to their property taxes paid minus a set percentage of their income as determined by the bill's marginal rates up to a-- up to the maximum credit amount. The ag circuit breaker in LB420 is available to individuals who own agricultural or horticultural land that has been used as part of a farming operation and has less than \$350,000 in federal adjusted gross income. The income tax credit would be calculated based upon the amount by which the ag property taxes paid exceeds 7 percent of the farm income. There would be one credit per farming operation. The handout that was distributed also provides examples to demonstrate both the residential and ag circuit breakers.

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For a residential couple, you first sum of the marginal rates that align with their income to determine what portion of their income may go towards their property taxes. Then you subtract this total from the amount of property taxes they actually paid. This difference is the amount of credit that they're eligible for. If that credit exceeds the maximum credit amount for their income level, then they will receive the cap credit amount instead. For an ag couple, you simply subtract 7 percent of their federal AGI from their ag property taxes paid to figure out the income tax credit for which they're eligible. With both the residential and ag circuit breakers, if the income tax credit amounts requested by all applicants exceed the total amount of credits available for the respective circuit breaker, each applicant's credit will be reduced proportionately. The use of circuit breakers as a means to offset property taxes has garnered support across the country and in Nebraska. Circuit breakers are mentioned as a possible solution to Nebraska's property tax challenges and the Tax Modernization Committee's final recommendations in 2013 and in a December 2014 Revenue Committee report on property taxes. As the state looks at ways to address the financial burden of property taxes on those least able to afford them, LB420 provides targeted property tax reductions to those who need it most. Thank you for your time. And I'm happy to try and answer questions.

LINEHAN: Thank you. Are there any questions from the committee? Senator Friesen, oh, I'm sorry, Senator Friesen and then Senator Briese.

FRIESEN: Thank you, Chairman Linehan. So the question was asked a little bit earlier about, you know, if you would-- if you just took the caps off and you ran an analysis of what this would cost.

TIFFANY FRIESEN MILONE: Yeah, we don't-- I don't have the number in my head right this second for what it would cost without the caps.

FRIESEN: OK. But you do have ability to get that number?

TIFFANY FRIESEN MILONE: We're trying to get it in time for closing.

FRIESEN: OK. Because I-- I look at the numbers here and what I'm looking at these and I think of the average farm size of Nebraska, I think you're going to find that there's going to have a fiscal note of several billion dollars. I'm just-- but I would love the program because I think right now you're going to find that a lot of ag

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producers probably have a-- their effective tax rate is around that 30 or 40 percent of their income. So I mean, they would basically get a full refund of their property taxes, so, it would be an amazing program if we could fund it. Thank you.

TIFFANY FRIESEN MILONE: Um-hum.

LINEHAN: Thank you, Senator Friesen. Senator Briese.

BRIESE: Thank you, Chairman Linehan. Thank you for being here. One of the knocks I've heard in the past on the Property Tax Credit Fund is X amount of those dollars go out of state. There's a lot of slippage out; out of state-- out of state property owners. Have you tried to determine how much slippage risk to be refundable income tax credit like you're talking about here?

TIFFANY FRIESEN MILONE: So we haven't been able to find like a concrete number for under the property tax credit program how much is going out of state. The University of Nebraska at Omaha did a study, I think in-- I think it was released last year, but they surveyed-- they pulled data from 38 counties, and I don't know off the top of my head which ones they are, but that showed that about 10 percent was of the property tax credit program was going to out-of-state residents. This, the way it's written, it would keep more of that in state due to the requirements that you have to have your, you know, your residence needs to be here. And so would keep more of it the-- I don't know, assuming that it's a, you know, apples to apples thing, more of that would be [INAUDIBLE]

BRIESE: Percentage wise, we don't really know, probably don't have a good handle on that, but we're just kind of assuming it would improve that.

TIFFANY FRIESEN MILONE: Again, the way it's worded it is-- I believe that it would basically keep-- based on the requirements for what you need to own a farm here, it needs to be a farming operation, you need to have Nebraska income, have paid Nebraska income taxes. So I think having those requirements would kind of tend to pull it more in state.

BRIESE: OK, thank you.

LINEHAN: Thank you, Senator Briese. Other-- other questions from the committee? Senator Kolterman.

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KOLTERMAN: Thank you, Senator Linehan. The question I have is on your testimony, page one at the bottom. Is there-- can you tell me what-- it says there will be one credit per farming operation. What-- what constitutes a farming operation?

TIFFANY FRIESEN MILONE: So I believe the intent is-- there is a question during the hearing last year. Senator Friesen asked about whether it was per, like, acreage, per plot of land versus per farmer essentially. And I think the intent of the bill is that it would be per, you know, like if you have an S corp, you know, that operation would receive a single credit.

KOLTERMAN: So an S Corp would flow back to the original owner of the property.

TIFFANY FRIESEN MILONE: Yeah.

KOLTERMAN: OK.

LINEHAN: Thank you, Senator. Kolterman. Are there other questions? Seeing none, thank you very much.

TIFFANY FRIESEN MILONE: Thank you.

LINEHAN: Are there other proponents? Again, and not to pick on you, but if you're going to testify, if you could move closer when your bill-- when you want to testify, it's helpful.

JORDAN RASMUSSEN: Good afternoon, Chairwoman Linehan and members of the committee. My name is Jordan Rasmussen, J-o-r-d-a-n R-a-s-m-u-s-s-e-n. I serve as the policy manager with the Center for Rural Affairs. The value of one's home or property does not always draw a direct correlation to the owner's income or ability to pay the associated property taxes. Homes and land for low and middle income Nebraska families are often representative of a long-term investment and the primary source of wealth rather than income or availability of liquid assets. Moreover, homes and land are subject to changes in valuations and markets that are removed from changes in income. This is particularly true for rural and older Nebraskans, many of whom have owned their home and land for decades or generations. When paired with Nebraska's strong reliance on property taxes for local funding, the regressivity of property tax is especially pronounced in rural areas of the state where incomes are lower to begin with. According to the Institute on Taxation and Economic Policy, low and middle income

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Nebraskans pay a higher portion of their income in taxes. A large portion of which is paid in property taxes. Those with 20-- the lowest 20 percent of earners, those making less than a roughly \$24,000 per year per household. Eleven percent of that family income is paid in taxes. When you break that down further, 5.3 percent of that share of family income is paid in property taxes specifically. A circuit breaker property tax refund, as outlined in LB420 is targeted to those who need it most: homeowners and owner operated farms of modest means. A circuit breaker offsets the regressivity of property tax by providing relief to households having a higher burden of property tax on their household income. Looking at farms, according to USDA's farm production expenditures 2017 summary taxes, including property taxes, accounted for 5.1 percent of production expenditures for Nebraska farmers in 2016. This percentage rose to 5.8 percent in 2017. When you step back and look at the United States as a whole, taxes paid accounted for only 3.6 percent of farm production expenditures. This significantly higher percentage of operating expenditures paid in taxes for Nebraska farmers and ranchers are costs that cannot be directly mitigated by lowering input costs or increased production. LB420 seeks to address the burden and regressivity of property taxes paid by ag landowners. For farmers and ranchers with annual federally adjusted gross incomes under \$350,000, this would be a significant savings for farm and ranch families that are being pushed to the brink with high property tax costs and stagnant incomes. While the-- the proposed circuit breaker seeks to provide property tax relief to Nebraskans with the lowest income and the farmer-- farmers and ranchers as well, it doesn't bring the state's tax system into full balance. The state's reliance on property taxes to pay for K-12 education and other local entities will remain burdensome. While land is an investment for farmers and ranchers, it is also a source of their livelihood and identity and a resource that cannot quickly or easily be turned over to increase income needed for property tax payments. In order for property tax-- property tax circuit breaker to provide the greatest benefit to Nebraska's-- the state's real communities additional state revenues and a broader rebalancing of Nebraska's tax system will be required. LB420 is a step toward property tax relief for Nebraska's low and middle income families, rural and urban alike. We encourage the committee to vote for LB420; move it from committee and address some the regressivity of our tax system. Thank you.

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LINEHAN: Thank you. Are there questions from the committee? Seeing none, thank you very much for being here. Good afternoon. Go ahead.

SUZAN DECAMP: Good afternoon, Chairman Linehan and members of the Revenue Committee. My name is Suzan Decamp spelled S-u-z-a-n D-e-c-a-m-p. I'm a volunteer and member of the executive council for AARP Nebraska and I'm here today testifying in support of LB420. AARP is the largest nonprofit nonpartisan organization representing the interests of Americans aged 50 and older and their families. Key components of AARP's advocacy agenda include helping to ensure that Nebraskans and all Americans alike are financially secure and can age in their own homes and community among family and friends. AARP strongly believes that all individuals have the right to be self-reliant and live with dignity. This is especially true throughout one's retirement years. To help achieve this goal, AARP Nebraska supports LB420. AARP believes that property tax relief should be equitable, targeted, and cost effective. In particular, AARP policy supports circuit breaker proposals like LB420 because they are targeted to those residents who are most in need of the assistance. In this case, low and moderate income Nebraska households. Circuit breaker programs offer property tax credits or homestead exemptions that decrease as income increases resulting in a more progressive tax system. Therefore, lower income households receive greater tax relief than higher income households. Thirty-four states and the District of Columbia offer circuit breaker programs, many of which provide tax relief to both homeowners and renters. As you may know, property taxes are the single most burdensome tax for many low income and older homeowners. Almost 20 million households with adults age 50 and over spend more than 30 percent of their income on housing and are therefore considered housing cost burdened. The property tax affects older people directly as homeowners and indirectly as renters because landlords may pass on tax burdens in the form of higher rents. The taxes imposed on an illiquid indivisible asset making it difficult to pay for with those who have limited liquid income. This is the case for many low and moderate income Nebraskans, particularly among the state's older population. Many older Nebraskans have lived in their homes for a long time. As their property values have appreciated, so have their property taxes. But many who may now be retired do not have the income to afford the yearly increases in their property taxes, especially while also meeting their basic needs for food, medicine, and utilities. According to a AARP research, 90 percent of people 65 and older want to remain in their own homes and communities as they

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age. Yet without relief they might be forced to give up their homes and move away from their family, friends, and community or choose between housing costs and other necessities. For these reasons the property tax relief provided by LB420 is essential. We urge the committee to support this important legislation. We appreciate Senator Bolz introducing the bill and thanking the committee for the opportunity to provide comments. We would ask that you please support and advance LB420. And I could answer any questions if you have any.

LINEHAN: Thank you. Are there questions from the committee? Seeing none, thank you very much. Other proponents?

JOHN HANSEN: Chairman Linehan, members of the Revenue Committee, for the record my name is John Hansen, J-o-h-n H-a-n-s-e-n. I'm the president of Nebraska Farmers Union and also represent them as their lobbyist. The first time that we brought this concept forward, I was not eligible to be part of AARP. So I'm thinking back to all the different senators who have brought this issue in the past as a way to think about taxation, especially relative to property taxes, in a different way. Senator Dubas and Senator Dierks, multiple times with Senator Dierks, going down through the years. So I thank Senator Bolz for bringing this forward. And so it's-- it's a way of thinking about, kind of, the-- the inequities between, or the lack of firm or consistent connection, between the fact that you own agricultural land and the fact that you may or may not make any money. I've had years where I've lost a lot of money, and yet on paper I was worth a lot of money. Fortunately because of that I was able to extend my loan, get-- get a loan renewed because I still had a lot of equity left. But my joke was for a number of years, when people asked me, in the mid '80s what I did for a living, I said quite honestly I borrow money, because that's what I did for several years. And so this-- this up and down, back and forth, in and out, less than firm relationship between land ownership, in particular, and-- and net farm income has been one that has been a challenge for us to try to explain to our city cousins because they look at it and say, well gee, you're worth a lot of money. Well yeah, and boy, we-- we spend a lot of money and we can lose a lot of money. And so-- so the inequity of high property taxes really comes into view at times like this where we're-- we're now headed into year six of below the cost of production commodity prices for a lot producers, not all, but a lot. Those who owe very much money or don't have enough off farm income to cover family living costs. So there's a lot of folks out there living off of depreciation. And if anybody has been in business for any length of time, you know that

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there's only so many-- so long you can live off of depreciation until you've worn out your equipment. And so, I like this as a concept. I would prefer a structural fix so there is less need for this. And, you know, we-- we've tried to come up with new and unique and different kinds of ways to deal with the-- with the argument that's already been raised, well gee, if you do something across the board, well then, you know, out-of-state folks will also get it and absentee land ownership is up so that's always an issue. So trying to find an acceptable way for remedy is-- is an ongoing-- is an ongoing challenge. But there is, to Senator Friesen's point, relative to landlords and renters, there is a lot of-- there is a lot of kids who own farmland who are, you know, they inherited the farm. They don't live in Nebraska anymore, but they keep the farmland. And so the-- the property taxes has a lot to do with the cash rent that they have to charge because that's the only place to make it up in order to be able to pay it. So in my case, I'm getting a nephew started. My biggest single expense is property taxes. So if my-- I have lower property taxes, I can lower the rent to my nephew, so there is that relationship. And with that I can see my-- I am running out of time. Thank you very much.

LINEHAN: Thank you, Mr. Hansen. Are there questions from the committee? Seeing none, thank you very much.

JOHN HANSEN: Thank you.

LINEHAN: Other proponents? Are there opponents? Anyone wanting to testify in a neutral position? Seeing none, Senator Bolz, would you like to close?

BOLZ: Well, thanks for your kind attention. I just wanted to address two quick points. A better answer to your question, Senator Linehan, is that we don't have asset limits on the ag side, but there is a reference to a limit on page 7, line 4 of the bill that says for purposes of the subdivision, the amount of property taxes paid on a qualifying residential taxpayer's principal residence shall not exceed the amount of taxes paid on a residence with a taxable value equal to 200 percent of the average assessed value of single family residential property. So there is a limit for the residential side. There is not a limit on the ag side. So I answered your question for the ag side, not the residential side. And then, I-- I hear the question about what if we raised the caps entirely, what if we did not have to have a fiscal limitation? In some quick discussions, it sounds like the data to make those assumptions is not handily or easily available. It's a little

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bit of a difficult calculation to come up with. And I think one strategy might be, if the committee were to choose to move forward with this, is to set a cap based on the amount that we can fit into our overall fiscal picture and adjust that forward as we have resources available. I won't take any more of your time, but I will be happy to answer final questions if you've got them.

LINEHAN: Thank you, Senator Bolz. Are there other questions from the committee? Senator McCollister.

McCOLLISTER: Thank you, Madam Chair. In your handout sheet, how do you define income? Maybe we covered that and I missed it.

BOLZ: I'm not sure I understand what you mean.

McCOLLISTER: Is it adjusted gross income, or net income of a family, or, you know, that's really a definitional question, IRS definitional questions.

BOLZ: I see what you're saying. We used adjusted gross income.

McCOLLISTER: OK. Thank you.

LINEHAN: Thank you, Senator McCollister. Are there other questions from the committee? Seeing none, thank you very much.

BOLZ: Thank you.

LINEHAN: Oh, letters for the record, I'm sorry. Proponents: Steve Nelson, Nebraska Farm Bureau; Robert Johnston, Nebraska Soybean Association; Katie Pitts, Nebraska Appleseed. Opponents: Kristen Hassebrook, Nebraska Chamber of Commerce. Neutral: Sarah Curry, Platte Institute. With that we close the hearing on LB420. That's right, and open the hearing on LB530.

GROENE: Thank you, Chairman Linehan and the committee. Mike Groene, M-i-k-e G-r-o-e-n-e. This committee and past members have seen these types of legislation in the past. LB530 is a straightforward bill that adjust valuation for agricultural and horticultural for land for purposes of property tax. In the Nebraska revenue statutes, 77-201, agriculture and horticultural land is currently valued at 75 percent of its actual value. This bill reduces the valuation of such land to 65 percent of its actual value. LB530 also changes two other sections: the Tax Equalization and Review Commission, TERC, has the power to

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increase or decrease the valuation to fit within an acceptable range. Such acceptable range of value of agriculture and horticultural land is reduced from a range of 69 to 75 to a range of 59 to 65 percent. And then state aid value for agriculture and horticultural land as you find in Nebraska Revenue 79-101.6, is reduced from 72 to 62 percent. Just to give us some history on where we're at, the Legislature and the people in Nebraska, back in 1990, under-- with LR2 by the Legislature and the vote of the people as a constitutional amendment, understood that the value of land is not affected the same by economic factors as man-made real property is God don't make any more land, he makes more people; men make more real property homes and real estate-- residential. So if you know anything about economy, if you got 99 acres and you get 100 buyers, you've got 99 apples and 100 buyers, you got inflation. If you've got 100 apples and 99 buyers, you've got deflation or regular growth. We have more buyers than we have land. So we value what different in the state in Nebraska because of that factor. Then in 1991, the Legislature enacted it and they started to value an ag land by-- based on an agricultural land valuation manual. Don't ask me. I haven't read the manual. That's what the statute says. And then in 1980, apparently that didn't work, in 1980, no, 1997, excuse me, they changed the valuation of agriculture and horticultural land for taxable value to 80 percent of actual value. And LB968 in 2006, about 10 years later, changed valuation for agriculture and horticultural land from 80 percent to 75 percent. It's another 10 years. So maybe it's time do it again. And then I gave you a handout showing you what we talked about earlier about different economic factors affecting land versus homes over the last 10 years, most 7 to 17, since about the time we went to 75 percent, ag land has gone up 149 percent values. The same time, residential, the second hand out, has only gone up 13.32 percent. We've got a lot of shifting going on around here with taxes. It's not only been a shift away from property-- from income and sales taxes to property taxes and how we fund our schools that's one part of it, there's also been a huge shift to ag land from residential and commercial in areas that have all three. How do you fix that? You offset the huge increase in value of ag land by lowering by statute to 65 percent. That would be the best way to do it. Then also, we've been focusing, because it's the biggest chunk of it, on how we fund our schools with property taxes. That's 60-- 55 to 70 percent, depending where you live. If you live in it and have your tax bill depending if-- if you live in a community or outside of it, if you are dominated by ag land or if you're dominated by residential properties. But we've got that other 40 percent of our

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taxes being paid to other taxing entities. And they have taken huge advantage of the ag land increases. If you look at your community colleges, if you look at your NRDs, you look at your cemetery boards, your fire districts, they've had a windfall. Not because inflation went up, not because needs went up, because valuations went up. Senator Linehan's bill on having a hearing on the levies will help offsetting the huge increase in land, so we get a better balance between residential, commercial, and ag land. LB530 will do a lot towards balancing that act within the property tax base. And then we can worry about the income and sales tax later. Thank you.

LINEHAN: Thank you, Senator Groene. Are there questions for Senator Groene from the committee? Senator Friesen.

FRIESEN: Thank you, Senator Linehan. So you talked about the changes over the last 10 years and property values. You know, on ag land, obviously, you were using apples and inflation and-- so is there-- so has there been any new ag land added?

GROENE: So it's actually been less, because the same-- the residential actually, Senator Friesen, has eaten up some of the prime ag land and it would amaze you the percentage.

FRIESEN: So we have less ag land. But when we talk about the residential property taxes, levy, you're talking about a 13 percent increase that also includes new construction right?

GROENE: Yes.

FRIESEN: So if you take new construction out of residential and just talk about existing homes, would you say that relatively they've been flat or decreasing?

GROENE: Yes. And even if you if you took another measure and said dollar amount of property taxes paid for a thousand dollars of value, it's gone-- it's got a negative number, because the ag land went up, the levy went down, ag land paid more, but the levy went down to offset any small increase in valuation, so the person with a residential in an area where there's ag land, the percentage of-- of their property taxes to valuation is probably a negative number. I haven't run the numbers, but it's probably negative because the levy went down, especially in education. But the ag land did not, it still-- it might not have got 149 percent-- percentage increase than

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what the taxes paid, but it's is probably a hundred-- a hundred dollars or so.

FRIESEN: There have been increases of 180 percent of taxes paid. So we've always talked we don't like tax shifts, but you mentioned this is a tax shift.

GROENE: Within-- within the-- within the property tax base. It's tax shift.

FRIESEN: A large tax shift. So how many, by doing this, when you're lowering it 65 percent, right now 175 school districts receive no equalization aid. How many school districts of that would this bring equalization aid? Because like in my district I think I have to go down to 45 percent of value before this first school receives any equalization aid. So we're down to 65, now you're saying, so how many of those school districts would be brought in?

GROENE: It would not help those individuals as much it would-- I always use the community of Schuyler because they have farmers. It's an equalized district. And they're at a \$1.05 no matter what. And so if you drop their value to 65, they would get a 10 percent reduction immediately and their-- in their funding for their school, because-- on the general fund for the school. The person in the equal-- non-equalized district, he-- that farmer is not-- or ag land owner is not going to-- because they can raise the levy, and it would take-- it would take quite a bit of reduction in the value of the ag land to even come close to equalize, because we've had that huge of increases, so. But by doing it across the board, he-- he should see some reduction in his tax burden from the county, the rural fire district, the NRD because some of that would be shifted to the residential land.

FRIESEN: But otherwise it wouldn't bring a lot of those 175 school districts into equalization?

GROENE: I would think the fiscal note of \$27 million, or whatever it was, was based on my-- my North Platte. Ten percent of North Platte school district is ag land. Those farmers would get help. Those ag land owners would get help. And every farmer or ag land that was in a equalized district, I'm assuming that \$27 million is mostly those folks.

FRIESEN: Thank you.

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LINEHAN: Other questions from the-- thank you, Senator Friesen. Other questions from the committee? I have some questions or just some things I want to mention, looking at your charts here. So on the ag land property value taxes, the one which starts out Douglas County number one, Washington, Lancaster, these are all either urban areas or bedroom communities. Their ag land is gone up considerably more than if you go further west. OK, you get Douglas County at 271 percent. Is that-- you think that's because the ag land went up, or is that because encroachment of the urban areas are driving the price. I mean, they should be greenbelted, but it seems a little odd that those are all stacked there at the top.

GROENE: Some of it could be attributed to speculation for 10, 20 years down the road. Park your money there if you've got money and hope the city grows out to it. It might be five miles, but I'm assuming that's a factor on what land brings in Douglas County or anywhere in between the--

LINEHAN: Well, out in Washington County, which just the north, in Sarpy County just--

GROENE: Anywhere between here and Lincoln any land--

LINEHAN: Right. Saunders. And then, when you look at the residential property taxes, which is kind of shocking, you get some people that jump off the page here, you got Morrill went up 67, maybe that's just two or three houses, I don't know. Douglas County went up 31 percent over those same 10 years. But you have a lot of places when you go further, I don't know, it's not a third, but a fourth of the counties where residential taxes actually went down. Hooker says 34 percent.

GROENE: That was that shift I talked about.

LINEHAN: So the shift, you can really see, is dramatic when you go out to counties where they've got--it's the same thing that Senator Briese was is trying to address with his valuing ag land for less on a levy bond because you get people whose taxes in the smaller towns have gone down and they pass the levy bond and the ag guys pick-- pick up the bill, right. That's--

GROENE: Well, it's just in-- it's also in-- it's what I said earlier about the-- the valuation goes up on the ag land, you become an equalized district, your levy drops proportionately, but not completely because you lost your state aid. Well if you're at home in

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Dundy County would be Benkelman, if your home in Benkelman only went up 5 or 6 percent and farmland went up 100 percent, the levy drops, your taxes go down; the farmers' did not.

LINEHAN: Right.

GROENE: Because you filled in with-- you plus the state aid.

LINEHAN: Right.

GROENE: That's-- pretty much I would venture to guess all those negative numbers are under 20 percent. Numbers are probably counties that have hit that non-equalized, their school districts have.

LINEHAN: OK, thank you very much. Are there other questions for Senator Groene? Seeing none, thank you. And you'll be here to close because you're here. So proponents?

STEVE EBKE: Thank you, Madam Chairwoman and members of the Revenue Committee. My name is Steve Ebke and that's spelled S-t-e-v-e E-b-k-e. I'm a farmer from Daykin, Nebraska, and I currently serve on the board of directors of the Nebraska Corn Growers Association. And I'm here today on behalf of the Agriculture Leaders Working Group that's comprised of the elected leaders from the Nebraska Cattlemen, the Nebraska Corn Growers Association, the Nebraska Farm Bureau, the Nebraska Pork Producers Association, the Nebraska Soybean Association, the Nebraska State Dairy Association, and the Nebraska Wheat Growers Association. And I'm testifying in support of LB530. We thank Senator Groene for introducing the bill that reduces the valuation on agriculture and horticultural land from the current 75 percent down to 65 percent. The Ag Leaders Working Group supports LB530 as one component to provide property tax relief with a goal to secure property tax relief for all Nebraska property owners in a relatively short period of time. The Ag Leaders Working Group has supported similar provisions before this committee when a larger more comprehensive bill was heard in LB497. LB497 reduces the valuation of ag land to 40 percent for purposes of funding K-12 schools. By going from 75 to 65 percent on valuation overall, LB530 would be complimentary and could be part of a broader solution to providing meaningful property tax relief. While we believe there's a substantial amount of work yet to be done to create property tax relief, we thank Senator Groene for once again trying to reduce the burden on property taxes. The Ag Leaders Working Group urges the committee to advance

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LB530 as one part of an overall solution. Thank you. I'll be glad to answer any questions.

LINEHAN: Thank you, Mr. Ebke. Are there questions from the committee? Seeing none, thank you.

STEVE EBKE: Thank you.

LINEHAN: Next proponent? OK, seeing no proponents, opponents?

RENEE FRY: Good afternoon, Senator Linehan, 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. While we appreciate the intent of LB530, we have two primary concerns about the bill. One, it creates a disparate impact on taxpayers, and two, the loss of agricultural valuation will lead to revenue losses for schools, counties, community colleges, and other local governments. As an example of the disparate impact, I've provided a graph showing the impact of reducing agricultural land value to 65 percent on school districts that have value in Lincoln County, assuming that the necessary state aid increase is funded. The impact on LB530 on agricultural land ranges from a property tax reduction of 1.98 percent in McPherson County schools to a 14.61 percent reduction in Gothenburg Public Schools. Conversely, non-agricultural property taxes could increase as much as 13.83 percent in McPherson. In all but four districts, the reduction in school property taxes for agricultural landowners led to tax increases on all other types of property. When fully implemented, LB530 would result in a \$96.3 million shortfall for public school districts. The TEEOSA formula would call for an increase in state aid to schools. However, this would have offset less than a third of the lost revenue. Given current budget projections, the state aid support is far from assured from school-- for school districts. Furthermore, the increase in state aid would only benefit schools that receive equalization aid. One hundred and forty eight districts would still be non-equalized. If this bill had been in place and fully implemented in FY-19 and the state aid increase had been funded, school district property tax levy rates would have had to increase an average of 15.2 cents to avoid service cuts. However, 10 districts would have been unable to make themselves whole without a levy override. If the state had not funded the requisite increase in state aid, levies across the state would have had to average an increase-- would have had to increase an average of 16.3 cents, and at least 44 school districts would have been unable to make themselves whole without an override to

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their levy limits. LB530 also creates a \$64 million shortfall for other local governments including \$15.7 million shortfall for cities and villages, \$25 million shortfall for counties, and \$9 million shortfall for community colleges. This means those communities with significant amounts of agricultural land must make up the lost revenue through major levy increases. This would wipe out much of the tax cut from lowering valuations for farmers and ranchers and raise taxes significantly for other property owners. As a final observation, this proposal would slightly narrow the disparity of property tax levies among agricultural landowners in different counties. Since agricultural landowners that are adjacent to urban areas tend to have higher levies than those in highly rural areas, therefore we believe there is merit in the idea of reducing agricultural land value for state aid purposes only. Such a measure would increase the number of school districts that qualify for state equalization aid helping those school districts that have fallen out of equalization in recent years due to rising agricultural land values. Based on FY'18-19 data, this change would have brought 16 school districts back into equalization; and unlike the Property Tax Credit Program, it would target the aid increases to areas with relatively high tax levies. The data also show 104 districts would benefit, 61 of which had levies of at least 95 cents, 87 of these districts have levies of at least 80 cents. So thank-- one other point I would make, that our concerns are also reflected in the comments that you find in the fiscal note from NDE and from NACO. So with that, thank you for your time, and I'd be happy to answer questions.

LINEHAN: Are there questions from the committee? I'm sorry, Senator Crawford.

CRAWFORD: Thank you, Chairman Linehan. And thank you, Ms. Fry. When you-- you just said quickly at the end your other concerns reflected in the fiscal note, can you explain what you mean?

RENEE FRY: Yes. Yeah, absolutely. So if you take a look at the fiscal note and you go to, see, Department of Ed, so it would be the fourth page of the fiscal note, Department of Education. So if you look and read the comments that they have here, says some districts may not be able to generate enough property taxes necessary to operate because there would be limited to the current \$1.05 levy limit equalize districts likely would see their-- their resources lowered which would result in an increase to their equalization aid. There would be some non-equalized districts that would become equalized with their

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reduction-- reduced valuation, so. And I missed the point earlier that they said this would likely result in districts raising their levies to generate the same amount of property taxes in following years. So, I just noticed that the fiscal note for NDE, as well as on the next page from NACO, they said that-- NACO said the fiscal impact is indeterminate. However, it would significantly reduce the tax base available to levy for county services and programs, shift the tax base to commercial and residential properties, or a combination of both scenarios. Eventually if the real property tax base is reduced and a majority of counties, the county would have to increase the levy amounts for services and programs that are required to be-- that are required to provide by federal and state mandates and yet maintain constitutional levy limits of 50 cents.

CRAWFORD: Thank you.

RENEE FRY: Yes.

LINEHAN: Thank you, Senator Crawford. Are there other questions? I have one, Ms. Fry. On-- in the bottom paragraph on your testimony here--

RENEE FRY: On the first page?

LINEHAN: Of the first page.

RENEE FRY: OK.

LINEHAN: It says this-- I'm sorry, here, it will be a shortfall for cities and villages. Why would ag properties pay taxes to cities and villages?

RENEE FRY: And yes, I mean if they're within the city limits, yep they would.

LINEHAN: Yeah, but, generally, I think ag properties are outside the city limits, aren't they? Or even if they're in the city limits, it would be greenbelted hopefully.

RENEE FRY: I don't know the answer to that.

LINEHAN: But I just think-- I would question why if you're going to drop ag values, it has anything to do with--.

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RENEE FRY: Yeah.

LINEHAN: It wouldn't affect Omaha, or-- I don't-- I don't know why the cities and villages.

RENEE FRY: I don't know, I mean I would have to look into it further, but.

LINEHAN: OK. Any other questions? Yes, Senator Crawford.

CRAWFORD: Thank you, Chairman Linehan. So I'm just trying to think about that, if it-- it still would be ag land, even if it's a greenbelt ag land wouldn't it? So I'm thinking that-- why that calculation would be that there still binding.

RENEE FRY: Yeah.

CRAWFORD: And Sarpy County, all right, around in a-- in a [INAUDIBLE]. And there would still be land that's in-- within the boundaries of a city, it might still be ag land.

RENEE FRY: Right.

CRAWFORD: And still be called ag land, even though it's treated differently with the greenbelt, it's still ag-- still ag.

RENEE FRY: Yeah.

CRAWFORD: Probably.

RENEE FRY: I think so. I need to look into it.

LINEHAN: I think we had a bill-- I think the state law right now is if you come inside the city limits, you are no longer greenbelt-- greenbelted. We had-- we had a bill for Senator Walz, remember about Fremont. So right now, once you're in the city limits you lose your greenbelt status.

CRAWFORD: You might still be ag land?

LINEHAN: I don't think you can still be ag land if you're in the city limits and you lose your greenbelt status then you go on the city. So, I just think that-- I'm not sure why that's in there.

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RENEE FRY: I'll look into it-- I'll look into it and get come back to you.

LINEHAN: Any other-- yes, Senator McCollister.

McCOLLISTER: I think, to answer your point, I think there is ground in Douglas County that is outside the city limits but inside the Douglas County limits.

LINEHAN: Right, and I'm not questioning the county amount. I'm-- but I live there outside the city limits within Douglas County. I don't pay any city taxes. So unless you're in the city, you're not paying city taxes. So--.

RENEE FRY: Yeah, I'll need to look into it and get back to you.

LINEHAN: All right. Any other questions? Thank you very much.

RENEE FRY: Thank you.

LINEHAN: Next opponent?

JACK MOLES: Good afternoon, Senator Linehan, members of the Revenue Committee. My name is Jack Moles, J-a-c-k M-o-l-e-s. I'm the direct-- executive director for the Nebraska Rural Community Schools Association, which I'll also referred to as NRCSA. On behalf of not only NRCSA, but also the Nebraska Council of School Administrators, Nebraska Association of School Boards, and the Educational Service Unit Coordinating Council, I'd like to testify in opposition to LB530. We recognize Senator Groene for his efforts to create mechanisms for property tax relief, however, we believe LB530, in many cases, will simply create either a tax shift or higher levy rates. In situations where neither of those are possible, there will also be--t there could also be possible cuts in services. We have a concern about what happens when valuations start to move back down. How will this bill play out then? I'd like to cite some real evidence of this taking place. Bertrand Community Schools this year saw a reversal in valuations as they lost \$40 million in valuation from \$620 million to \$580 million. Included in my testimony I have provided you with the article from yesterday's York Times or "News Times" in which the York County assessor says evaluations are coming down. In the article she cites the examples of land sales from a few years ago of \$16,000 an acre, while in the past few weeks sales of about \$8,500 an acre of taking place. She says this is evidence that valuations on the-- on

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the way down. We believe the correct time for this type of a bill to be addressed would be when there is more stability in valuations. Otherwise, you would be simply acting in a reactionary manner. Of particular importance to our public school districts would be the loss of revenue for educational service units. ESUs are a vital partner for all of our schools, but especially our rural schools. If ESUs were to lose revenue, then the costs for some services would grow for school districts. If ESUs had raised prices to the school district or if the district had to provide for lost services, then property taxes for the school district would need to be raised if possible. Another concern we have is the philosophy of moving assessment levels and classes of property, in this case, ag lands. In this session alone, I have heard talk of setting ag land valuations at 1 percent,, 30 percent 50-- 40 percent actually, 50 percent; and I had a mistype on here, it's 65 percent instead of 60 percent, and 70 percent of their actual values. At one time ag land valuations were set at 100 percent of their actual valuation. Then in 1992, you were set at 80 percent of their actual valuation. In 2007, they were again changed this time to the current 75 percent. Two questions come to mind here. What is the correct percent? And second, what is good state policy on when and why to change the percent? I don't have the answer and I don't have great recommendations on either, but I believe the senators should answer to themselves the second question first. What is good state policy on when and why to change the percent at which a class of property should be valued for tax purposes? In closing, NRCSA, NCSA, NASB, and the ESUCC do understand the need to create property-- property tax relief, especially for our farming community. We do want to reach that goal while still fully supporting our public schools and educational service units. We do not believe LB530 creates the correct vehicle to attain this goal.

LINEHAN: Thank you, Mr. Moles. Are there questions from the committee? I noticed that STANCE is not listed here.

JACK MOLES: I did not communicate with them on this. I did not hear from them.

LINEHAN: Because they would be the schools that would benefit from this.

JACK MOLES: Right.

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LINEHAN: OK. Thank you very much.

JACK MOLES: You're welcome.

LINEHAN: Are there other opponents?

JON CANNON: Madam Chairwoman, distinguished members of the Revenue Committee, my name is Jon Cannon, J-o-n C-a-n-n-o-n; I am the deputy director of the Nebraska Association of County Officials. Thank you for having us here to testify in respectful opposition to LB530. Most of the reasons for opposition have been covered already. It would represent a tax shift primarily. NACO's primary concern is the erosion of the tax base. And I'm going to use a couple of examples to illustrate how it works against the counties in particular on either end of the spectrum. In rural counties, there is really nowhere else to go. If-- if I take, say, Cuming County, which has the lowest county levy in the state at 11.33 percent, all it's going to happen is they're going to adjust the levy and they're going to make up the same amount of property taxes that they would have. There is not a huge city population to shift that tax-- those taxes to. And so the people up there are not going to see much of a difference in the taxes. On the other end of the spectrum, you've got the folks that are already at the levy. And I will use for an example Gage County which has just said they're going to go up to 50 cents this year. Essentially what this would do-- what this bill would do is it would prolong the agony for those residents of Gage County as they are trying to pay off the judgment that was rendered a couple of years ago. Certainly, I don't think that's-- that's probably the-- the end result of this committee is looking for. When you look at other counties that are near the levy limit probably; Dundy County is in the high 40s, the same thing. They're going to adjust the levy limit as much as they can. They'll be up at 50 cents. But heaven forbid that anything go wrong like they need a new road grader, they need to-- they've got a road washed out or anything of that nature because they wouldn't be-- unable to raise the necessary funds to take care of that. To clarify a question that you were asking about earlier, Senator Crawford, the question about agricultural land within the city; agricultural land within a city limits, you can't have it, it'll be valued at 75 percent of its actual value. The bill that we had heard earlier, which was LB250, that said that they would be able-- also be able to value it at 75 percent of its special value. Currently you cannot. So I just want to clarify that point.

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There's nothing further I have. With that I'd be happy to take any questions you might have.

LINEHAN: Thank you, Mr. Cannon. Are there questions from the committee? You mentioned Cuming County.

JON CANNON: Yes ma'am.

LINEHAN: I love West Point, Nebraska; it's a great community. Wisner, Beemer, Bancroft is 9,000, according to Google, 9,042 people. How many of those people do you think are ag producers?

JON CANNON: I could not tell you, ma'am.

LINEHAN: OK, but they have a pretty decent population. I don't-- there's not 9,000 farmers there.

JON CANNON: No, there are not.

LINEHAN: So, maybe somebody else can figure out exactly how many farmers are in Cuming County.

JON CANNON: Yes, ma'am.

LINEHAN: Thank you. Are there other questions? Thank you very much.

JON CANNON: Thank you.

LINEHAN: Other opponents?

JUDY KING: Hi.

LINEHAN: Hi.

JUDY KING: My name is Judy King, J-u-d-y K-i-n-g. And I'm in opposition to LB530. And I couldn't have said it any better than Ms. Fry and Mr. Moles, and the last gentleman said. They gave all the facts that were needed to give. My concern-- I also-- I live in Lincoln, so I-- I totally understand the tax that we all want our taxes reduced. But I also care about public schools, the school system. And Senator Groene, who is on the Ed Committee, it's simply fitting that he wants to lower taxes to reduce the amount that goes to schools. It seems to me he should be more interested in the-- increasing money going to schools and caring more about education than he does. And I really can't say much more, but I'm with a group that

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just recently started, it's called We Are Watching. And I'd just like Senator Groene to know that I'm not with a Betsy Ross group or or a Betty Ross group that he said in the hall the other day. I'm with the group called We Are Watching.

LINEHAN: OK.

JUDY KING: So thank you.

LINEHAN: Thank you. Are there questions from the committee? We have a rule here which I'm not particularly fond of that when it's a senator's bill, they don't get-- we don't ask questions because we don't want to intimidate witnesses, which we definitely don't want to. But I think it's only fair to go on the record. I think you mischaracterize Senator Groene's efforts a bit. But thank you for being here.

JUDY KING: That's not the opinion of quite a few people that I know.

LINEHAN: Thank you.

JUDY KING: So, thanks. And I didn't-- I didn't really even think about that, not being--

LINEHAN: Well, just so people know, they can't respond.

JUDY KING: Yeah. I know. That's great [INAUDIBLE] so, sorry.

LINEHAN: Other opponents? Oh green sheet. We need the green sheet. Other opponents? Anyone wanting to testify in the neutral position?

JOHN HANSEN: Again, Chairman Linehan, members of the committee, for the record, my name is John Hansen, J-o-h-n, Hansen, H-a-n-s-e-n. We have, excuse me, we have been opposed in the past to efforts to go from 75 to 65 for two reasons. One is that we're sort of like most of the-- our organization is kind of like most of the military operations where we really don't want to leave folks behind. And the-- the problem with just doing an across the board reduction is that it works better for about a third of the counties where you have a diversified economic base, because there is somebody else you can shift to. But for about two-thirds of the counties in the state, ag so clearly dominates those-- those taxing districts that if you're just moving money around from one pocket to the other pocket on the same set of pants because you have levy limits left and so you move it up. But I

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do really sincerely appreciate Senator Groene bringing this bill forward because there is a separate issue, which is a part of this whole overall tax issue, and that is there are starting valuations in Nebraska are too high to begin with. So, when you compare where we are to our neighbors, we are too high. And so, the fact that I'm neutral represents, Senator Groene, progress. I am moving your direction and would be a lot more interested in-- in being-- if this were a part of a more comprehensive fix. And so what we kind of draw-- drew the line on before was that, and the second reason was, that we didn't want people to think elected officials or otherwise that ag's problems were going to be over if we simply reduced property values from 75 to 65, because while some would be helped, there would be-- the majority would not be. And so then we would not have a structural fix and we'd take a bunch of the pressure off them for some of those folks and the other folks would just be stuck. But do we have a problem relative to ag land valuations being too high to begin with? We really do think we do. And so I've been around so long that I was a part of that statewide effort, Senator Groene, as a result of LR2 with the Farm Bureau and the Cattlemen to go out and sell that to the folks across the state. And we tried to do an earnings capacity formula and it passed, and then our Nebraska Supreme Court threw that out. And so how it is that the Supreme Court can declare a constitutional amendment unconstitutional is one that continues to baffle. But it happened. And so then we ended up with what do you do in order to find something that they would accept. And that's how we ended up landing really in kind of a time of crisis on market based. And so that's a little bit of the history of how we got there. So with that I'll end my comments. And thanks, Senator Groene, again, for bringing the bill.

LINEHAN: Thank you, Mr. Hansen. Are there questions from the committee? Thank you very much for being here.

JOHN HANSEN: You bet.

LINEHAN: Is anyone else in the neutral position? Seeing none, would you like to close, Senator Groene?

GROENE: Thank you, Chairman. I often wonder sometimes where would we be if ag land valuations would not have tripled in the last 20 years. Would children have been warm and in excellent learning environment today? I am-- think we would be; that's Nebraskans. Would we have thrown as much money at it to get to the same point? Probably not. But because of ag land valuations, money came easy. We as Nebraskans do

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services that are necessary, but like most humans, if money comes easy we live a little higher. But testimony-- some of the-- I've heard this too often, what happened the last 20 years economically and on ag land valuations is not a norm, it's an aberration. You keep hearing that this is natural occurrence, it was planned by this body in the past, that we were far-sighted in seeing ag land, and we expected that to happen. And all this money would be flowing into the coffers of the local entities that levy property taxes. We would've survived. Maintainers would have been a little older, police cars a little older, wage scales would have been a little less. But there's one thing that happened in this boom because this ag land valuation, it's an aberration. We have a recession. We don't have a recession, we have a depression in your rural Nebraska. The very area where the land values went up, property taxes skyrocketed, we have a recession, a depression, de-population, home valuations decreasing, main streets boarded up, so high taxation doesn't seem to be the answer for economic development in the long run when you look at facts. Also, I agree with the ag leaders, and I was going to say it in my opening and forgot. I think Senator Brasch is sitting back there, she brought-- I think she brought this two years ago, was somebody-- I think she did, and I was adamant against it, so she's probably steaming back there. [LAUGHTER] But, as a package, it fits right in. If we do property-- a property tax package, it fits right in because who it does help is those ag land owners in equalized school districts. Because anything else we do, it was-- I don't know if it was Senator Brasch, but it was somebody brought it and we had it here two years ago, or three years ago. But this fits right in and it would really help those ag owners and equalized districts who are really getting hurt. We need to help them more than anybody else. They're the ones who are paying the hundred and some plus dollars an acre. And I keep hearing about how we're going to cause a disaster in budgeting. Did all of a sudden all this money come flowing in on the other side of the scale because the valuations, did it cause an uproar and a disaster in the county budgets? They seem to absorb the increases pretty well. But they can't absorb the decreases in free market system. Senator Friesen does. Senator Briese does. I do in a free market system, we're here. I think government can do the same if we slow down the free flow of tax dollars only caused by, as I said, an abnormal happening in ag land valuation. So I appreciate it. Any questions?

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LINEHAN: Thank you, Senator Groene. Questions from the committee? So you're talking about the STANCE schools, or some of them, Norris, Beatrice, York, the ones that--

GROENE: Schuyler.

LINEHAN: They're at \$1.05 and the ag guys just happened to be swept in where most-- many of the ag--

GROENE: They're getting the same valuation increase is huge, but they're getting-- at least out in unequalized districts the levies are coming down a little bit, proportionally, but not as much. These guys are stuck in a buck five.

LINEHAN: At the maximum.

GROENE: Because of the equalization problem. They're paying unbelievably high property taxes. I travel four state area in ag and I tell farmers in Colorado or Kansas or Wyoming, irrigated guys, what they pay for property taxes here, and they're just shock, they cannot believe how their cash flow it. And theirs is at \$20 or \$30 at the most. We have a problem, and it's-- and we build government and pay for it after we, as citizens, provide for our families and take care of our public safety and things. It isn't the other way around. The public don't exist for the public entity; public entities exist for the people, and we decide how to fund them.

LINEHAN: Thank you. We have letters for the record. Proponents: Kevin Cooksley, Nebraska State Grange. Opponents: Kristen Hassebrook, Nebraska Chamber of Commerce. Neutral: Sarah Curry, Platte Institute. And with that we bring a close-- hearing on LB530 to a close. So the next hearing is LB663, it's Revenue Committee day. Hi. Senator Friesen.

FRIESEN: I know, some of you are tired of seeing me up here.

LINEHAN: No, no.

FRIESEN: Thank you, Chairman Linehan, members of the committee. My name is Curt Friesen, C-u-r-t F-r-i-e-s-e-n; represent District 34. I'm here today to present LB663. While I'm reading my description, it's going to be complicated and I'll try and clarify when I'm done. LB663 changes the Nebraska adjusted basis to the remaining federal tax basis for purchases of depreciable personal property occurring on or

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after January 1, 2018. If similar personal property is traded in as part of the payment for the newly acquired property, plus the additional amount that was paid by the taxpayer for the newly acquired property. It also strikes a reference to Section 179 of the Internal Revenue Service Code. And language stricken in LB663 was amended into LB1089 last year as a personal property tax fix relating to 1031 exchanges. Last year when we adopted an amendment to LB1089 to fix the 1031 exchange issue brought on by passage of the 2017 federal tax cut bill, the Nebraska adjusted value became the remaining net book value instead of the federal tax basis, which, as a result, was going to raise the personal property tax basis instead of just maintaining what was done prior to adoption of the 2017 federal tax cut bill. So I'm going to-- I'm going to give a just a quick simple example. Let's say I wanted to buy a new combine, and this works for a commercial manufacturing equipment also, but for me this is a simple explanation as I can get, I purchase a brand new combine, it cost \$300,000. I trade in a combine that costs \$100,000. Under previous law, my personal property tax value would have been \$200,000. Under the weight of the federal law and the changes it made, we currently have to report it as \$300,000. We're reporting the full value of the purchase price of that piece of equipment. So what we want to do is bring it back to what it was originally where it's the trade in value, the "to boot-value" that's paid, plus any remaining depreciable value that was there. I mean that was consistent so. This is truly, just again, a tax fix that we didn't get quite right when we tried to fix it last year. The wording was a little wrong. And so what we're doing is-- is trying to restore it back to what it was before the federal tax changes that were in place currently. Glad to answer any questions.

LINEHAN: Senator McCollister.

McCOLLISTER: Yeah, thank you, Madam Chair. This would apply to automobiles just like combines would it not?

FRIESEN: You don't have to depreciate them, really. So I mean, it may apply to trucks on your depreciation schedule, but it's more to equipment. Cars are, you know, there you pay on the licensing fee, you may pay a value that-- nothing changed with that with the federal tax code. This has to do with the depreciable equipment, commercial.

McCOLLISTER: Thank you.

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LINEHAN: Thank you, Senator McCollister. Other questions from the committee? Senator Groene.

GROENE: The fiscal-- there's no fiscal note, I understand that for the state, just depreciation schedule maybe on-- if you make money. But the counties claim there is minimal. I mean, there's a lot of tractors and combines sold, maybe not this year, than last year and next year but in the past that.

FRIESEN: I think with the changes that just happened, they're going to notice a slight revenue bump this year. And so, yes, it will-- it's got to have a fiscal note, I'm sure, for the--

GROENE: For county.

FRIESEN: --county levels just on the personal property tax. But hopefully it's-- it's just a one year blip that they see, because I've been hearing from some accountants already that they are running into this already, so it's an issue. But it depends on, again, how many dollars of value were traded.

GROENE: There's going to be a bump in revenue form because you've got the whole valuations.

FRIESEN: Right.

GROENE: And I don't know what you heard the last time, but they expected that money and they're going to spend it.

FRIESEN: Right.

GROENE: And if you take it away from them, the county collapses. But we just go back to normal, is that correct?

FRIESEN: Right. What we're trying to do is just restore the same-- the same policy we had in place before the federal tax cuts. Because what we did was, we didn't get the fixed quite right, and so now we're taxing full value on personal property values instead of the trade-in value.

LINEHAN: Thank you, Senator Groene. Other questions? So there's no fiscal note because nobody knew it was there?

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FRIESEN: Well, there's also no fiscal note because we don't ever really show a fiscal note when we talk about property taxes, because it's not a property-- not a tax the state collects.

LINEHAN: Thank you. Other questions? You'll be here to close, right?

FRIESEN: Yes.

LINEHAN: Proponents?

STEVE EBKE: So again, thank you, Madam Chairman and members of the Revenue Committee. Again, my name is Steve Ebke, that's spelled S-t-e-v-e E-b-k-e. I am a farmer from Daykin, Nebraska, and serve on the board of the Nebraska Corn Growers Association and today I am representing the Ag Leaders Working Group. And I'll repeat that list again, and that's comprised of the Nebraska Cattlemen, the Nebraska Corn Growers, the Nebraska Farm Bureau, the Nebraska Pork Producers, the Nebraska Soybean Association, the Nebraska State Dairy Association, and the Nebraska Wheat Growers. And I am testifying in support of LB663. The Agricultural Leaders Working Group-- thanks, Senator Friesen, for introducing the bill. LB663 modifies language contained in LB1089 that was passed in the last legislative session. We believe the use of federal tax basis satisfies the intent of LB1089 which more-- much more clearly than net book value and it returns Nebraska personal property taxpayers to the position prior to LB1089. We would ask the committee to advance LB663. Thank you for your time and I'll answer any questions if they're not-- are posed.

LINEHAN: Thank you very much, Mr. Ebke. Are there questions from the committee? Seeing none, thank you much.

STEVE EBKE: Thank you.

LINEHAN: Other proponents?

KRISTEN HASSEBROOK: Good afternoon, Chairman Linehan, members of the Revenue Committee. My name is Kristen Hassebrook, K-r-i-s-t-e-n H-a-s-s-e-b-r-o-o-k. I'm here today on behalf of the Nebraska Chamber of Commerce and Industry in support of LB663. LB663 fixes and maintains the 1031-like kind of exchange for personal property for Nebraska taxpayers which would have been eliminated due to the federal tax code changes. The 1031 exchange for personal property is used by many businesses, not just ag businesses to update and make capital investments in equipment. Like kind exchanges then allow a personal

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property allow businesses to efficiently expand and stimulate economic growth. The repeal would directly decrease business investment and increase the cost of these capital assets. A higher cost of capital discourages business in the investment and negatively impacts our economy overall. The higher cost of capital also likely increases the time that businesses will hold that property over, again not redeploy-- redeploying that properties more slowly into the economy. We believe the 1031 exchange for personal property is good tax policy to keep businesses investing and reinvesting in our economy so they can grow and add jobs and stimulate the economy of Nebraska. With that we'd encourage you support LB663 and I'd be happy to answer any questions.

LINEHAN: Thank you. Are there questions from the committee? Seeing none, thank you very much. Other proponents?

JOHN HANSEN: Madam Chairman, again for the record, and the committee, my name is John Hansen, J-o-h-n H-a-n-s-e-n, and I'm still the president of the Nebraska Farmers Union. My accountant brought this issue to my attention and he said, what do you think I should do. And I said, I think you should send it to the Farm Bureau. And I applaud them for their work, and Senator Friesen for their work. And so we understand what the issue is. I believe that this was an unintended and inadvertent change in policy. The policy we had before was more fair, more reasonable, one we all understood. And so I think that this simply corrects an error, an unintentional one. And so with that we're glad to support this bill. Thanks, Senator Friesen, for bringing it forward.

LINEHAN: Thank you very much, Mr. Hansen. Are there questions from the committee? Seeing none, thank you much.

JOHN HANSEN: You bet.

LINEHAN: Other proponents?

MARK OTHMER: Good afternoon, Chairman, members of the Revenue Committee. My name is Mark Othmer, M-a-r-k O-t-h-m-e-r. I'm the Nebraska field director for the Iowa-Nebraska Equipment Dealers Association. We represent approximately 400 farm equipment, construction equipment, and outdoor power equipment dealers in both states of Iowa and Nebraska. Approximately 150 of those in the state in Nebraska. Obviously, we thank Senator Friesen for bringing this

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issue forward, a continuation kind of from last year, hopefully, to put it in permanent law rather than a sunset date. We fully support this legislation, and mostly ditto to everything else that everyone else has said in front of me. We want to sell farm equipment, obviously, and our members, even last year already, were getting concern from their customers of not wanting to purchase equipment or wanting to cancel orders on equipment because of the situation. So, I encourage you to move this along in the process. And I'll be glad to answer any questions.

LINEHAN: Thank you very much, Mr. Othmer. Senator Groene.

GROENE: Put in perspective on a combine, if you don't get the-- you buy a \$400,000 combine and you take a \$200,000 trade-- \$250,000 trade in, now they're paying the property taxes on the full \$400,000.

MARK OTHMER: That's correct.

GROENE: So put it in perspective, it's like they bought another \$250,000 house and they're paying property taxes on it, is that-- because it's the same tax levy as a-- as that it's on a house, is that correct?

MARK OTHMER: Exactly. And you know, I've had accountants tell me that on an average basis across the-- across the state, the property taxes valuations generally will cost you 2 percent of whatever the valuation is. So it's the difference between a valuation on \$200,000 versus a valuation on \$400,000, double.

GROENE: So you get a \$400,000 increase.

MARK OTHMER: Right.

GROENE: Thank you.

LINEHAN: Thank you Senator Groene. Senator Kolterman.

KOLTERMAN: Thank you, Senator Linehan. Is Senator Groene a member of your organization?

MARK OTHMER: He is not.

KOLTERMAN: You should sign him up.

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MARK OTHMER: I really should.

LINEHAN: Thank you, Senator Kolterman. Other questions? Seeing none, thank you for being here. Other proponents?

JON CANNON: Madam Chairwoman, distinguished members of the Revenue Committee, my name is Jon Cannon, J-o-n C-a-n-n-o-n. I'm the deputy director of the Nebraska Association of County Officials. We're here today in support of LB663. I think everything that can be said about this bill has been said far more articulately than I can, but I will just provide a little bit of background. Last year when 1089 was passed, the provision got put in that said that we're going to use the remaining-- or pardon me, the Nebraska adjusted basis as our-- as our starting basis for the new piece. That had previously been-- been unaddressed in legislation before. There is a department regulation-- Department of Revenue regulation, which is Title 350, Nebraska Administrative Code, Chapter 20-001.03C which had already addressed that at that particular issue. And so what happened was, in statutes trump regulations, that statute ended up reversing what the department already had in place. Frankly, you could just repeal what we had done last year and you would come up with the same results. But anyway, that's the background that I can provide. I'd be happy to take any questions.

LINEHAN: Thank you very much, Mr. Cannon. Are there questions from the committee? Thank you for being here.

JON CANNON: Thank you.

LINEHAN: Other proponents? Any opponents? Anyone wanting to testify in neutral. Senator Friesen, would you like to close please?

FRIESEN: Thank you, Chairman Linehan. Main reason I wanted to come up with was make sure everybody noted that the state chamber also testified that there is a property tax problem. And I think it was the first time that they've supported one of my bills. So I just-- I wanted to put that in the record. If you have any questions I'd like-- I would gladly answer them.

LINEHAN: Any questions for the Senator Friesen? Seeing none, thank you. Letters for the record: we had none. So that brings a hearing for LB663 to a close. We will begin the hearing, last hearing of the day, on LB483. Senator Erdman.

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ERDMAN: Thank you, Senator Linehan; thank you, committee. My name is Steve Erdman. I represent District 47; that's 10 counties in the Panhandle of Nebraska. I'm here today to present to you LB483. It is a bill to change the way we value agricultural land for taxation purposes. You have received several documents by e-mail and I'll just begin with trying to do an overview from perhaps the 30,000 feet review. And if you have questions about the technical part of the bill, I would be glad to discuss those. There will be other people behind me who have more expertise in valuation than I from the property assessment division. Before I begin, I would like to just make sure for the record that I wanted you know that I worked with the Governor's office this summer and I appreciated the help that Lauren Kintner provided, and Ruth Sorensen, those people from the assessment division. We had a meeting-- several meetings talking about how to do this and what to do. So this is the conclusion, this bill today, is the conclusion of those discussions. We met several times as some are trying to figure out how to do this and how to do it right. I've worked more and spent more time working on this bill than any bill that I have introduced. This is my-- this is my third attempt and I would hope that it will make sense to those on the committee that we would be able to understand what it is we're trying to do. One of the things that I want to make sure that is very clear, this is not-- this is not a property tax relief bill. This is a fair way to value ag land going forward, so that we don't have a run up in value like we have over the last 10, 12 years in agriculture. Had we had a method such as this in place back in 2000, Senator Kolterman, we wouldn't have had the 300 percent run up in ag values that we've had. And so consequently this is a fair way and a just way to value agricultural-- value land for taxation purposes. And so there are a couple of problems that I think that this bill will solve. First of all, the more serious problem with the way we do it now, the land classification, is something that has been a problem for a long time. And Dr. Jerry Green, and some of you have seen his presentation on the land class groupings and why it is not acceptable. And so consequently this will solve that problem. And it also clarifies the production capability between irrigated, dryland, and grass. And currently, we are using the method of dryland farming to value all of these three classes of soil. And so, this is a method that's going to be using the natural resource, the Natural Resource Conservation Services productivity indices to develop a production capability of each class of soil on each property; be a fair way to value those ag properties so that they are taxed according to their production. So we've been

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doing this sales method for a period of years. I shared with somebody this morning, they asked me what does this do? And I said, well, basically in rural counties and every county that I've looked at, we sell less than 1 percent of the ag land on an annual basis. And then we take that 1 percent of the sales and we price the other 99 percent based on 1 percent that sold. That would be like in the city of Lincoln, say we have 300,000 houses-- or 200,000, or whatever it is, and we sell 50. And out of those 50 houses, we're going to determine the value for all the rest that didn't sell. Doesn't make any sense. So what we do is we have five sales in each category of land in the county and then that's not enough for a decent statistical array, so we borrow some sales from another county. So maybe we get to 20 sales. That's still not appropriate. And so the mass appraisal approach doesn't work with the way that we're doing it. And so this is a fair way to do it. And so we are the only state in the region that uses this method of the market approach. All the rest have gone to a productivity approach. And so this is a fair way to do that. So with the limited sales that we have, it's very difficult for people to understand why their values don't go down. And you have heard and many have asked me, what about the three-year average? We have talked about the three-year average in ag sales. There is no such thing as a three-year average. What they do is they take a three-year combination of all the sales that happened in that class of land in the county and then they divide those sale prices by the amount that the value of-- the amount the property was valued at the county. For example, if you sell a piece of land for \$1,000 an acre and the county had it valued at \$750, that would be 75 percent. So what they do, they do all those calculations and get them all in percentages and they start from the highest percentage down to the lowest percentage and then they choose the median one, the middle one. And there's no such thing as an average. And so then they do a coefficient of dispersion and a price differential and some other mathematical equations to figure out if they did an-- if they would do an average, is that a close number to what the average would be? So it's very convoluted. It's very difficult to understand. And consequently what this is, it offers-- offers an opportunity for everyone to be able to understand how their land is valued. There have been-- there is a fiscal note attached and you-- you maybe have seen that. The fiscal note talked about hiring 2.5 extra employees. I did a bit of research with people who are familiar with how the property assessment division functions and how many employees they have and what their charge is at that location. And there is probably somewhere between eight and ten people assigned

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to doing property valuations for agriculture now on the property assessment division. And so when the Fiscal Office notes that they're going to hire 2.5 people, and if, in fact, those eight or ten people that are currently working on ag values now, if two or three of those were switched over to doing what this bill calls for, I don't understand how there can be a \$350,000 or \$327,000 increase in appropriations. And so consequently I have a-- I have a little problem-- a big problem with the fiscal note. The other thing I want you to note in there are talks about NACO was asked if there will be a fiscal impact and their evaluation was that there could be a reduction in agricultural/horticultural property. Well, I don't know that that's the case as well. If you look on-- on page-- I had it highlighted here, let me look and see if I find it. Page 9? Page 9 at the bottom. On line 27, at the end of line 27, starting with the word "for:" for tax year 2020, the board shall set the discount rates so that the total agriculture productivity value of all agricultural land and horticultural land is the same-- is the same as our total assessed value of such land on January 1, 2019. So the bill says that when they get done figuring out the valuation based on the productivity of the soil, that the valuation for that county is going to be the same as it was when we started. And so to say that it's going to affect horticultural land and drive down the price of agricultural and horticultural land is not a true statement. And so consequently, I wanted to bring that to your attention. And so as we move forward through implementing this bill, it is my goal, and I believe it's the goal of those that work with me, to make sure that the value stays the same; because we have rural communities who the majority of their valuation is in agricultural land. And I have numerous counties in my district, and Senator Brewer has more than I. And if we would reduce the value of ag land, we would put those counties in a difficult position. And so we don't want to do that. And so the valuation will be the same. This bill also takes away the opportunity for someone to go to TERC to dispute their agricultural value. The issue will be: is your soil classified right? And is your acres right? And so this is going to be a fair way to value ag land that a producer can understand what his value is. Now, the question that I've also had to ask was are some people going to pay more and some people pay less? The answer is yes. And the reason it's yes is because the current method they use doesn't value high-- high-producing agricultural land at a high value and low-producing agricultural land at a low value. They're valued the same. And so there'll be some people who will pay more taxes which is going to be fair because their land is better and some will pay less.

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And consequently, that's what happens when you do things that are fair and equal. And so moving through the bill, as you see, all of the underlined part that we added, we've been working on this, as I said, for three years. It's a very significant change from what we do now. But it puts us more in line with those counties-- those states that are contiguous with us. It gives us an opportunity to make a decision how to value ag land fairly. And as a county commissioner for those 12 years I've been a county commissioner, it was very difficult for me to explain to people how we arrived at their ag value and then try to explain to them why we could sell that little bit of land, that small amount of land and drive up their value. And consequently this changes all that and it fixes that part of it. So the assessment division-- property assessment division will be here to testify in favor of that. You will hear-- NACO will come in today and they will talk about-- they'll be opposed to the bill. And the assessors will be opposed to the bill. And I made-- I extended an offer to anybody that wanted to help me last summer to work on how to make this bill what they thought it should be, the assessors or anyone else, and no one seemed to want to step up and help. And so when I come with what I think is the right approach and I come with what I've been able to put together and someone comes up and says I don't like that approach, that is not fair, it's going to be hard to implement, that is not true. But it aggravates me when they don't have a plan, but they hate the one I have. And so consequently we never make any changes here because we have someone who doesn't like it. And so this is going to actually make the assessors' job easier. I don't care what they try to tell you, it will be easier. And the Land Valuation Board we're going to put in place is going to be in charge of this. There are some of these things that I-- some things that I wanted to put in the bill, Senator Kolterman that I was-- I was concerned about putting in statute; because, Senator Crawford, you put something in statute and you find out in June or July that maybe that wasn't the correct thing to do in some county and we have to wait to meet next January to make that adjustment, that's difficult. And so we're going to leave some of these things up to the land-- the Land Valuation Board to make those decisions on how to implement this. And they will report to the Revenue Committee their findings and to the Governor. So there'll be controls there. And they will have an opportunity to make the decisions that are most valuable to those people and most equitable to those people that are making the decision for them. So with that, I will close, but I'll be around-- I'll close my opening remarks; I'll

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be around to close. And I would like to try to answer any questions you may have.

LINEHAN: Thank you very much. Senator McCollister and then Senator Crawford.

McCOLLISTER: Thank you, Madam Chairman. Has this [LB]483 been endorsed by the Governor?

ERDMAN: Yes, the Governor-- the Governor's Office is in support of the bill.

McCOLLISTER: Thank you.

LINEHAN: Thank you, Senator McCollister. Senator Crawford.

CRAWFORD: Thank you, Chairwoman Linehan. And thank you, Senator Erdman. So, I'm trying to understand if the Ag Land Valuation Board does this calculation, what is the role of the assessor then?

ERDMAN: The assessor will be able to do-- she will have to collect the data from how many acres there is and apply that information to that parcel and make sure that that parcel is correctly valued according to the production of that. And she will get the information from the valuation board and she'll just-- she'll have a-- an Excel spreadsheet and she'll put the information in and it will give her the value.

CRAWFORD: So there's a manual.

ERDMAN: Yeah. They're going to create a manual. Yes.

CRAWFORD: And then the assessor still has a role though in terms of applying what's in the manual to actual land in the county.

ERDMAN: Yes. Yes, ma'am.

CRAWFORD: OK. Thank you.

ERDMAN: Yes.

LINEHAN: Thank you, Senator Crawford. Other questions? Senator Friesen.

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FRIESEN: Thank you, Chairman Linehan. So, going forward, and I know you said you're keeping the valuation relatively the same, but there'll be changes amongst property.

ERDMAN: Correct.

FRIESEN: So, the way I read it here, there'll be no more than a 15 percent allowable change for year to year, up or down?

ERDMAN: Yep, want-- we didn't want it to be a tremendous change because of the agricultural influence on some of those counties. That would be a significant problem if it changed at a rapid rate.

FRIESEN: Okay, so how do-- how do sales prices-- do they enter into this at all after this?

ERDMAN: The sale, Senator, the sales prices will be included in 2020 when they make the transition. The sales information will be used to determine the value that's in that county. And that will be the value that has to be arrived at through the capitalization rate and the production has to equal that same amount that the sale sold for.

FRIESEN: OK. So you're just making sure the land quality is-- higher quality land is paying more, low quality land is paying less because it cannot produce.

ERDMAN: Yes. And the other issue we have, Senator Friesen, is in my district we have several high-priced land and that is for hunting. We have some land in the northern part that's in the pine trees and they pay a significant per acre price to hunt elk and whatever they hunt there, and also along the river. And they pay \$4,000 or \$5,000 an acre for river land. And so when that happens, those people who have land along the river that use it to graze cattle or up in the hills in the trees they use it to graze, their values have been driven up because of the sales next to them. And this will be based on the production capability of the soil.

FRIESEN: So would those properties that are just hunting properties, would they remain high value?

ERDMAN: That-- that-- they'll have to have a special use or some kind of other method to value those above the agricultural use.

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FRIESEN: OK. Thank you.

LINEHAN: Thank you, Senator Friesen. Senator Crawford, did you have another question?

CRAWFORD: I did. Actually-- thank you, Chairwoman Linehan. Thank you, Senator Erdman. Actually, is-- I guess a partial answer to my question-- my one-- my question-- my one question was, will the revenue from hunting or-- or tourism be considered part of the revenue that gets mixed into the formula?

ERDMAN: You know, that's a question you may want to ask the property assessment division. Right now, currently in our county, we have an assessment for people who have hunting blinds on the river. We charge them \$1,000 per blind. So that's how they collect property tax on that part of that-- part of that land. And so, that would be a question maybe you could ask them.

CRAWFORD: And my follow up question is, just trying to understand what the discount rate is; what that means is that something equivalent to our 75 percent that we do now or what does the discount rate mean?

ERDMAN: No. No. What the discount rate means is they will determine that the production capability of the soil and then they will get the value that is produced on that acre of soil and then it will divide it by the capitalization rate to determinant their value for taxation. And so it has nothing to do with the 75 percent.

CRAWFORD: OK. All right. Thank you.

LINEHAN: Thank you, Senator Crawford. Other questions from the committee? OK. We'll see you at closing.

ERDMAN: Thank you so much.

LINEHAN: Thank you. Proponents?

SARAH SCOTT: Chairperson Linehan, members of the Revenue Committee, my name is Sarah Scott, spelled S-a-r-a-h S-c-o-t-t. I am the field operations manager for the property assessment division. I office in the Department of Revenue's North Platte office. I am here testifying on behalf of the Nebraska State Tax Commissioner, Tony Fulton, and Ruth Sorenson the Property Tax Administrator. She is unable to attend today due to knee surgery. I am speaking on their behalf in support of

LB483, Senator Erdman's agricultural and horticultural property valuation bill. Thank you, Senator Erdman, for introducing this bill. LB483 moves away from the current structure of market value for agricultural land by creating a valuation structure for agricultural land based on the capacity of the land to produce an agricultural product. This is agricultural productivity value. LB483 eliminates the 75 percent preferential assessment instead creating a nexus between agricultural production and value to provide stability and equity to valuations. Since 2006, the statewide value of agricultural land has increased 262 percent, while residential land increased 48 percent, and commercial and industrial has increased 59 percent. Under LB483, county assessors still play an important role in the valuation process as they are responsible for assigning a value to all land in the county including agricultural land. They will determine capitalized net earning capacity by using an agricultural land valuation manual developed by the Agricultural Land Valuation Board. Currently, county assessors use soil types published by the Natural Resource Conservation Service to inventory each soil into land capability groups. For tax year 2020 and thereafter, there will be five major agricultural and horticultural land categories: irrigated crop land, dryland crop land, irrigated grassland, non-irrigated grassland, and wasteland. Currently, the land categories are dryland, grassland, and irrigated land. Under LB483, for irrigated crop land and dryland crop land, an 8-year Olympic average yield for each county, with the one high year and one year low year discarded will be used. This will smooth out the effect of different weather patterns and averages 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 as determined by the Agricultural Land Valuation Board. Gross incomes will be reduced to account for expenses by multiplying the gross income by a 35 percent landlord's share resulting in the net income. The net income is then capitalized using rates established by the Agricultural Land Valuation Board. After capitalizing the income, a productivity index will be used to distribute the assessed value to value per index point. For grassland, the analysis will begin with the department determining cash rents for grazing land. The rents are then capitalized and distributed using a productivity index. The valuation methodology for irrigated grassland is to be determined by the Agricultural Land Valuation Board in the first year. The capitalization rates will be determined by the

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Agricultural Land Valuation Board and are to be based on an eight-year Olympic average annual precipitation level, with the one-year high and one-year low being discarded. Additionally, there are revenue limitations that the board must consider: if a farmer or rancher disagrees with the capacity of their land, they can protest to correct the characteristics that affect the productivity use of the land to the county board of equalization on a form prescribed by the tax commissioner. LB483 would be operative for 2020. This is something that we can do and this is something that we should do. I would be happy to answer any questions.

LINEHAN: Thank you very much. Are there questions? Yes, Senator Crawford.

CRAWFORD: Thank you, Chairwoman Linehan. And thank you for your testimony. So if I'm just following along and I see the calculation that's going to happen for irrigated crop land and dryland crop land, so what happens with irrigated grassland and non-irrigated grassland, and the wasteland?

SARAH SCOTT: Grassland, non-irrigated grassland, is-- starts with the rent, the cash rent, as determined by the department under direction of the board, and is then capitalized. So much like irrigation and dry, instead of-- instead of production times, a commodity price is rent divided by the cap rate.

CRAWFORD: Still based on expected revenue.

SARAH SCOTT: Right. Correct.

CRAWFORD: OK.

SARAH SCOTT: Irrigated grassland, is not-- there-- typically rents published for irrigated grassland. And so the bill says that the committee will determine the method for valuing that in the first year. Wasteland is also said to be determined by the committee.

CRAWFORD: Follow-up question?

LINEHAN: I'm sorry. Go ahead.

CRAWFORD: Follow-up question.

LINEHAN: Certainly.

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CRAWFORD: So I wondered with your position that you hold now, how will your responsibilities change under the bill?

SARAH SCOTT: Currently, our staff is involved in measuring the agricultural land value and all other property classes as well. So we measure, we-- we analyze and come up with a statistical measure of the land values produced by county assessors. But we aren't involved in establishing those values. The department's role would be to work with the Agricultural Land Valuation Board in performing the calculations set out in this bill and required for the manual. So it would be much more involved in the valuation aspect than afterwards in the measurement aspect.

CRAWFORD: So would you expect that you would have to hire someone else in your office?

SARAH SCOTT: That is the fiscal note prepared by the department. I don't have the details of that, but I would be happy to check into that with the tax commissioner and the property tax administrator.

CRAWFORD: Just-- I'm curious why, as the introducer is, why we need two more people if it's a shift in what we're doing. Thank you.

LINEHAN: Thank you, Senator Crawford. Senator McCollister.

McCOLLISTER: Thank you, Madam Chair. People are critical of the way farm ground has-- has increased in value. I understand that, makes a lot of sense. But with this particular system, you've got commodity prices, you've got yields and then you've got the cap rate. Would that make this a more stable system or somewhat less?

SARAH SCOTT: The reason it's more stable is that a complete sales analysis approach is very much subject to personal motivations of buyers and sellers. These are business people, farmers and ranchers that are entering into a business transaction because perhaps the land became available for the first time in 50 years; perhaps because it's a good investment because of water, recreational uses, other purposes. This-- the production approach takes out those personal motivations and it focuses on the land's ability to produce a revenue and capitalizes that.

McCOLLISTER: Can I follow up?

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LINEHAN: Sure.

McCOLLISTER: Three-year rolling average, correct?

SARAH SCOTT: Yes.

McCOLLISTER: Thank you.

LINEHAN: Thank you, Senator McCollister. Senator Kolterman.

KOLTERMAN: Thank you, Senator Linehan. So you'll be doing this on a county-by-county basis?

SARAH SCOTT: The-- there is a manual produced. It does produce a cap-- the-- the bill states that there will be a cap rate produced for each county. So, yes, each county would have a different valuation potentially.

KOLTERMAN: So then you work hand-in-hand with the SCS office or whatever? I don't know what the name of it.

SARAH SCOTT: Farm Service Agency?

KOLTERMAN: Yeah.

SARAH SCOTT: Not necessarily, no. The production information can come from a variety of different sources. Most typically it comes from the USDA's office. They publish the information annually through surveys and other information available to them.

KOLTERMAN: Wouldn't it be more accurate to use a local and get-- if you're using county by county they'd have it there already, wouldn't they?

SARAH SCOTT: I'm not-- I don't know that answer for sure. I know that the USDA information is published in and easily available, but we could check into the availability of the FSA records.

KOLTERMAN: I'm just saying, if you're using the USDA, there's lag time on that. Whereas, if you're using the local-- I mean, you can pretty much get instantaneously.

SARAH SCOTT: I don't know the answer to that, but we can certainly check out--

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KOLTERMAN: And then once it's established, once you've got it established, it shouldn't be much change from year to year, should there? Maybe a drought or--

SARAH SCOTT: Well, yeah, the-- the bill doesn't define all of the data sources, so it doesn't-- it's subject to approval by the Agricultural Land Valuation Board. So it depends on the stabilization of the-- of the commodity price used as to how much change there could be from year to year.

KOLTERMAN: Will you drill down to an exact quarter or will you just use a county-wide average?

SARAH SCOTT: The income information is from county wide-- the productivity information is from county-wide averages. That information isn't publicly available on a per-parcel basis, but it is available on per-county basis. So a county average is determined and then it's indexed based on the soil productivity to determine high-producing soil versus low-producing soil based on those county averages.

KOLTERMAN: But there's quite a bit more that plays into that. I mean, the amount of chemicals, the amount of seed, amount of water versus-- I'm just wondering, can you drill down farther because a lot of it boils down to management of a farm. I mean, you can have a quarter that's right next to another quarter, farmer is not any good on this side, but this side over here, the guy works his tail off and gets the crop done. How do you adjust for that?

SARAH SCOTT: That's why I'm trying to use the county average information, so they're not-- they're not penalizing good producers and-- and-- and benefiting the poor producers. They use the average income-- or the average production information to say this is what's typical for the county and everybody pays on a typical level.

KOLTERMAN: OK.

LINEHAN: Thank you, Senator Kolterman. Senator Groene.

GROENE: You must work hard, I didn't know that office was in North Platte.

SARAH SCOTT: We work very hard.

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GROENE: Are you the only office, or is there regional offices that do what you do?

SARAH SCOTT: There are regional offices in North Platte and Scottsbluff and Allen and Loup City. We have two small offices also here in Lincoln.

GROENE: And then you regionally check the valuations.

SARAH SCOTT: Yes.

GROENE: You seem pretty well-versed, very, very secure in your knowledge. I'm assuming you've studied up on this.

SARAH SCOTT: We have been studying.

GROENE: You have been the point person for the [INAUDIBLE] a lot of the research?

SARAH SCOTT: Yes.

GROENE: What-- what other state does this come closest to mirroring?

SARAH SCOTT: Closest, probably, to South Dakota in that they were the most recent state to establish the income approach. Their documentation is pretty public. They also use an eight-year Olympic average of incomes. Every state is unique, and this bill is unique to every state as well.

GROENE: As far as software, I know how government works, but getting this up and going by 2020 and assessors involved too, to-- to reassess everything, could we just use South Dakota's-- is there software there or is it going to have to be developed?

SARAH SCOTT: The software requirements, honestly, it is any Excel or database package. The software is not necessarily unique, it's collecting the information and analyzing it is-- is the time constraint. There's not necessarily specialized software that--

GROENE: And you do that? How much work then when you're done does the assessor have?

SARAH SCOTT: The county assessor does their-- the bulk of their work upfront in inventorying the land. So once the manual is produced,

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there's a relatively limited amount of work required by the county assessor.

GROENE: Every parcel land you send it out and that assessor can access what you've done--

SARAH SCOTT: Yes.

GROENE: --to access what you've done and it's done, evaluation is done.

SARAH SCOTT: Yes. There may be some programming needs to be done on their end initially, depending on exactly how the manual is developed, but yes.

GROENE: So, you have every piece of parcel of property in your database-- state database statewide?

SARAH SCOTT: We have-- we do not currently. We have made requests for that information in the past and we've received it. So it is possible to get that information. We don't currently have that. We don't currently have that information accurately. But it's-- it's a matter of an electronic export to capture it--

GROENE: From your county assessors to you.

SARAH SCOTT: Yes.

GROENE: OK Thank you.

LINEHAN: Thank you, Senator Groene. Other questions? Senator Friesen.

FRIESEN: Thank you, Chairman Linehan. I'm just reading through your notes here. I remember you talking about the-- use the 35 percent landlord share as to come up with that income. Where did that number come from or is that just a--

SARAH SCOTT: I-- you would have to direct that question to Senator Erdman. It is a fairly common percentage utilized by other states for their landlord expense. Some states use-- some states do an expense ratio. But I can't speak to where that number came from.

FRIESEN: OK. So, going forward, I mean, other states what I've heard is when they have a cap rate that is set, there's always a tendency for different entities to manipulate the cap rate to get the results

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they want. Who sets the cap rate here in the end? Is it set by this board?

SARAH SCOTT: Yes.

FRIESEN: Are there games can be played or is it well-defined?

SARAH SCOTT: I can't speak to that. There are revenue controls that would limit what the board could do. In the first year it has to be revenue neutral, basically, the same valuation. But I can't speak to what the board could do.

FRIESEN: OK. Thank you.

LINEHAN: Thank you, Senator Friesen. Other questions from the committee? Seeing none, thank you for being here. Proponents?

JOE MURRAY: Chairman Linehan, members of the Revenue Committee, my name is Joe Murray; that's J-o-e M-u-r-r-a-y. I am here in support of LB483. Farmers and ranchers don't buy their land to sell, they buy it to earn a living, raise a family, and often pass on the same land to the next generation. They may have a lot of property, but often as they say cash poor. Common sense dictates that taxing them on the production value of the land is far more based on the reality of their situation than taxing them as a percentage of market value and legitimately have no intention of selling their land. Sales values can be driven up by hunters, acreage owners, expanding towns and cities, or bidding wars that have no connection to a farmer or rancher's ability to pay for how they use their land. Just about every other state-- I think every state in the region taxes farm and ranch land on its production value. Nebraska stands alone as a high-tax island, we're all-- by all accounts our property taxes are higher than just about everyone else. I'm not one to keep up with the Jones just because everyone else is doing something, but sometimes you have to admit they know what they're doing. Last Thursday during the testimony in LB314, Wymore farmer Arthur Nietfeld testified that he has almost identical farmland in Nebraska and Kansas. For the tax year 2018, he paid \$16,450.20 in property taxes in Nebraska. He paid \$5,895.32 on his Kansas land; it's triple. It may not be the only reason but a major reason for Mr. Nietfeld's lower taxes in Kansas was the production method valuation. We have all heard dozens of examples like this. By itself LB483 isn't a solution to our overspending high-tax problems in Nebraska. Over time, it can be a big piece of the puzzle

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for farmers and ranchers as they have a more appropriate, fair, and accurate method evaluating their land. In the long run, farmers and ranchers will see, I believe, reductions in property taxes, as has happened in other states that use the production value method. I encourage this committee to vote LB483 out of committee and all senators to pass into law. Thank you.

LINEHAN: Thank you very much for being here, Mr. Murray.

JOE MURRAY: Any questions?

LINEHAN: Are there questions from the committee? Seeing none, thank you much.

JOE MURRAY: Thanks.

LINEHAN: Other proponents?

ART NIETFELD: Hi everyone. My name is Art Nietfeld, that's N-i-e-t-f-e-l-d, and I'd like to thank all of you for your hard work on these tax bills. I sure appreciate it. Last week, I was here and testified on LB314, but I heard about LB483 and I think it's an even better bill because I think the only permanent solution to these overburdensome, lopsided land taxes on farmers is to change how ag land is valued to a productivity approach as they do in most states around us. Also, this method should not hurt cities too much or city schools because they get a lot less of their revenue from farm property taxes. Also, if rural school districts come up short on property tax revenue because of this bill, some of their funding can come from the state just like the city school districts get a lot of their funding. After all, us people in the rural school districts pay taxes to the state too. We should get some of it back just like the city school districts do. All in all, I think changing how ag land is valued is the best and fairest approach. I live right near Kansas and I've got land in both Nebraska and Kansas. And as I told you last week, taxes are about a third as much in Kansas and they seem to get along just fine in Kansas. And when you go pay your taxes, everything that seems to be just the same is here, except you pay a lot of less. Another thing, I see Senator Groene isn't here, but I think he's got a pretty good bill; but I don't think it really goes quite far enough. And I would hope, like say, if you don't pass this bill, you maybe send his bill on. Another thing, if I have to pay more income taxes to increase state aid to schools so be it. I would rather pay income

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taxes than property taxes. At least if one does not-- at least if one does not have-- make as much, he doesn't have to pay as much. Whereas, one has to pay property taxes whether he makes any money-- any money or not. People can lose their farms and homes paying property taxes. Maybe a combination of LB483 and maybe LB314 or one of the other tax bills would also be a good solution. But I ask that you please do something now. We cannot stand these high property taxes any longer. Again, I'd like to thank all of you for your hard work.

LINEHAN: Thank you very much for being here, Sir. Are there questions from the committee? Seeing none, thank you.

ART NIETFELD: OK. Thank you.

LINEHAN: Be safe in getting home. Other proponents?

STEVE EBKE: Thank you again, Senator Linehan and members of the Revenue Committee. Again, Steve Ebke, spelled S-t-e-v-e E-b-k-e. Again, farmer from Daykin on the board of the Corn Growers here today testifying on behalf of Ag Leaders Working Group: again, Nebraska Cattlemen, Nebraska Corn Growers, Nebraska Farm Bureau, Nebraska Pork Producers, Nebraska Soybean Association, Nebraska State Dairy, and Nebraska Wheat Growers. I'm testifying in support of LB483, Senator Erdman's bill to change the way agricultural land is valued for property tax purposes. The bill changes agriculture land valuations from the current market-based system to a system based on capitalized net earnings capacity. Currently, Nebraska determines the taxable value of agricultural land using primarily a comparable sales approach, while most states value agricultural land based on the productivity of the soil. Our organizations, to various degrees, have policy supporting productivity based approach-- a productivity-based approach to valuing agricultural land for tax purposes. This is also a way to minimize outside influences which can drive agricultural land value beyond production capacity. Our current system of valuing property especially agricultural land has played a significant role in the dramatic increase in property taxes we have seen over the last decade. It is in part why landowners in Nebraska pay some of the highest or the highest in the nation. While we believe substantial work will be needed to be done to resolve Nebraska's property tax issues, we thank Senator Erdman for once again trying to improve Nebraska's system of valuing agricultural land. The Ag Leaders Working Group urges the committee to advance LB483 as one part of the overall

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solution. Thank you for your time and I'll be glad to answer any questions.

LINEHAN: Thank you very much, sir. Are there questions from the committee? Senator Friesen.

FRIESEN: Thank you, Chairman Linehan. So, when you-- when you look at this bill here, you will admit too though it is not a property tax relief component.

STEVE EBKE: That's correct.

FRIESEN: It could be-- it could be part of a larger picture, but it by itself does not lower property taxes.

STEVE EBKE: Right. As I-- as I stated, our groups have a long-standing policy of using productivity rather than market. And so that's-- I understand what you're saying and I agree it's not a relief at this point in time.

FRIESEN: So there, you know, and you farm in a different area than I farm in, so I mean, there are discrepancies in quality of land. And do you notice a big difference in your area that you feel that there's inequities, and I understand where Senator Erdman is coming from. In my area, that's a totally different type of operation in farms, but do you see a big discrepancy in how land should be valued in your area from one piece to the next?

STEVE EBKE: I think certainly the market does reflect that. We have a more rolling terrain than what you have in your area. We have some parcels that have great underground water aquifer resources and others that are limited and so you see that reflected in the market.

FRIESEN: But I guess the part I see where this could help is I know there's-- farmers recognize areas where they farm where there's more rainfall even five miles away. They understand that. I mean, I'm talking now where we're talking in your area alone, do your soils vary that much across six miles of territory that you would see changes where some quarters would go up in value, some would drop in value, but in the end, you know, you're going to equal out to where you are now?

STEVE EBKE: In my opinion, kind of based on where I was with the last answer, we do have quite a variety of soils. And I think it would

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make-- I think you would see some separation, if they want to call it that, where there would be some probably valued differently.

FRIESEN: Because right now, the sales price will reflect it because farmers recognize that. But when the assessor's office looks at it, they're all valued relatively the same because they-- they just look at sales across the area an average amount. That a fair statement?

STEVE EBKE: I'll go with you. Yeah. But I do think when you start looking at the quality of land, you probably will see more disparity than what you might see with a market value approach between the good and the bad.

FRIESEN: So do you-- I know in the 80s, land values dropped more than 15 percent at times; there was a crash. Are you worried at all now about limiting the downside as we-- as we head lower. I mean, I've talked to numerous bankers and things and they don't see it coming like it did in the 80s. But I know it lost two-thirds value. If we've now limited the drop to 15 percent, could artificially hold up land prices.

STEVE EBKE: I think you and I-- yes, we have the same opinion that that could happen. I will agree that there is a-- there is a potential for land to decline more as we've-- we've already seen it back up some. And I will agree with you that if this were to be adopted, that would slow that decline in land values that the market-- market might show more than what this averaging type approach would do. But, you know, you-- you establish a system and you go.

FRIESEN: Right, So, well I mean, looking ahead though, if this system was put in place and let's say that the farm economy improves just a little bit but stays relatively same, corn prices, everything else. Do you see the value, sale prices hold steady, would there be-- there wouldn't be any changes in land values based on this then? Because it's using current values, and so basically going forward, it's not going to slowly ratchet down prices or.

STEVE EBKE: You would expect, if some of the projections are correct, that the farm economy is going to remain in this kind of plane for a long period of time. I would suggest that once you calculate the productivity value and your discount rate, if we don't say see changes in prices and/or input costs then I would say it'd be fairly stable.

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FRIESEN: OK, I mean I've recently heard predictions from economists that say we're-- we're in another three or four or five year period of these types of prices, which would be devastating if we don't lower property taxes.

STEVE EBKE: I would agree with that.

FRIESEN: OK. Thank you.

LINEHAN: Thank you, Senator Friesen. Other questions from the committee? Seeing none, thank you very much for being here.

STEVE EBKE: Thank you.

LINEHAN: Other proponents? Seeing none, opponents?

JON CANNON: Madam Chairwoman, distinguished members of the Revenue Committee, my name is Jon Cannon, J-o-n C-a-n-n-o-n. I am the deputy director of the Nebraska Association of County Officials and we are here in respectful opposition to LB483. Senator Erdman has correctly noted that in 2020, the effective date of this bill, that values will remain the same. If you continue on, however, on line 31 of page 9 for tax year 2021 and each tax year thereafter, the board shall set the discount rates of the total agricultural productivity. That doesn't vary from one year to the next by more than 15 percent. So, you know, certainly going forward, there's a question about the instability of the tax base and that is probably the county's biggest concern is maintaining the stability of the tax base that we have for providing the essential goods and services to all of our residents. I will note that, again, I'll give all credit to Senator Erdman, he's got the right idea with LB372 to the extent that he is concerned about higher valued-- or higher production-- higher productivity parcels being valued to low or the opposite being true. I think this committee has accomplished that by LB372. From a income approach-- based approach, those rents are going to be recognized by the assessor when they're categorized in the correct land cap-- pardon me, the correct land capability group from a market approach. Those properties are going to be classified correctly and they'll be valued appropriately. One other thing I'd like to bring to this committee's attention is words that you probably all have heard and that would be that taxes shall be valued-- pardon me, taxes-- taxes shall be levied by valuation uniformly, proportionately upon all real property as the Legislature may direct. That is the uniformity clause of our constitution. It

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means that we have to have equalization and it's based on a market concept. We've been here before. We've had an ag land manual. We have had AHLVB boards before. What happened is in the 80s there were a series of cases that culminated in 1987 with Banner v. State Board of Education-- or pardon me, Banner v. State Board where the ag land manual was found to yield results that were unequal and disproportionate, not uniform. And as a result, that whole structure was found unconstitutional and thrown out. What we did, thereafter, is we amended the constitution and we said that, OK, that's fine, what we will have within the class of ag land is we can have different methods evaluating ag land so long as the results within the class of agricultural and horticultural land are still uniformly-- uniform proportionate within the class. The first structure that we have is Article VIII, Section 1, subsection (1) with ag land that's Article VIII, Section 1, subsection (4). Again, given the history that we've had with valuing agricultural land going away from a market value concept is going to create a fluctuation that will from one year to the next, based on who decides to sue, as Senate Erdman has pointed out, there are going to be winners and losers. And if I'm one of the losers, I'm going to say that I want to be equalized with that guy. And when it comes to that, you're going to have someone that does not have the ability to go to the County Board of Equalization, they're going to have to go to district court. The question is, from district court where do they go? Do they go to TERC or do they not? There's not a provision in this-- this statute for where a person that's dissatisfied with their ag land valuation gets to go. So in all likelihood, it's going to end up at the Court of Appeals or the Supreme Court. Now we have a Justice Heavican, we don't have a Justice Krivosha, but given the fact that we've got that precedent that's out there, I don't see the result being too similar. I can't speak for the Supreme Court. They're the ones that issued my license to practice law. I'd better not tell them how it's going to be, but I've read the case law. And you can usually use that to guess what-- where they're going to come out. One of the other questions that we have is with 93 different capitalization rates that's going to provide 93 different values for agricultural land and horticultural land and that's going to yield the prospects of inter-county disequalization. And I don't think that's where this committee wants to go. Again, the market value concept has served Nebraska well. It provides a stable tax base, it provides for something that is predictable from one year to the next for all the taxing subdivisions that we have. We would urge you not to advance LB483. We certainly think that with LB372 being on Select

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File, that gets us where we want to go. And I would be happy to take any of your questions.

LINEHAN: Thank you. Are there questions? Senator Kolterman.

KOLTERMAN: Thank you, Senator Linehan. Mr. Cannon, Do you get any-- do counties now get any financial aid from the state, like state aid for schools? Do you get anything equivalent to that?

JON CANNON: I don't have the answer to that, Senator. But I'll get that for you.

KOLTERMAN: OK. I know you're worried about your base eroding, but I was just thinking if we're basing it on production there's going to be some winners and some losers, wouldn't we likely get more income tax?

JON CANNON: Their income is going to be--

KOLTERMAN: Maybe not.

JON CANNON: --isn't going to change from one year to the next, so I don't-- I don't know that we'll necessarily get any more income tax. But again, well what-- what I will note is that we will have winners and losers and the people that are losers are going to say that they prefer the old system more, they're-- they're going to be the ones that are going to be motivated to have some court of competent jurisdiction take a look at whether or not this meets the requirements of the constitution.

KOLTERMAN: OK. Thank you.

LINEHAN: Thank you, Senator Kolterman. Other questions? Senator Crawford.

CRAWFORD: Thank you, Chairman Linehan.

LINEHAN: Oh, I'm sorry.

CRAWFORD: I'm trying to understand the inter-county difference that you're concerned about. If it was previously based on market values, wouldn't it be market values in that county versus market values in another county?

JON CANNON: No, ma'am, not necessarily. Actually a few years ago, there was a fairly controversial procedure that was adopted by the

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Department of Revenue. And I can't speak for them, I don't want to, but it involved the concept of borrowing sales for the purpose of measuring market value within counties. And what essentially the process that was undertaken was the Department of Revenue in measuring those counties and how they were getting to 69 and 75 percent for agricultural and horticultural land, they would look at essentially six mile collar around a county to see whether or not the sales matched up. A lot of times, and I've-- I've talked about statistical profile that the department will use and that the assessor will use as well. Very frequently, I don't have enough sales in my county, however if I go outside the county line, because again, that's just an imaginary line on a map, it's not-- there's no actual line when you're-- when you're crossing the county border, oftentimes those sales are going to be same soil, same type of production, and a pretty good reflection of what the market is. And so with that what you started to see across the state was instead of having radical-- radically different changes in value from one county to the next, all of a sudden there's more of a feathering effect kind of from west to east and in north to south.

CRAWFORD: Thank you.

JON CANNON: Yes ma'am.

LINEHAN: Thank you, Senator Crawford. Senator Friesen. Did you have a question?

FRIESEN: Yes, I did. Thank you, Chairman. Is there any way of, you know, everything else we do, income tax, we make changes, there's always somebody that can model the changes and it looks ahead or it looks back, is there any way of modeling something? So what do you see, if this got implemented five years from now, what changes do you see in your overall tax base in a county?

JON CANNON: Well, quoting Senator Erdman directly, in the first year there would be none, because it would be based on the prior year. But five years on down the road, I think that the likelihood is that you're going to start seeing a significant erosion of the tax base.

FRIESEN: Has anybody been able to model this?

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JON CANNON: I've not seen it. That's-- that's just based on my familiarity with-- with how-- how most of the modeling has gone and just seeing what the results have been over time.

FRIESEN: OK. Thank you.

LINEHAN: Thank you, Senator Friesen. Senator Groene.

GROENE: Keep using this term "eroding of the tax base." What is your-- what is your norm? This huge increase we've been getting in valuations, that's the norm and we're going to erode from that?

JON CANNON: My norm, Senator, would be the market value.

GROENE: Which has been a huge abnormal increases.

JON CANNON: I don't disagree with you, which is the coward's way of saying I agree with you, Senator.

GROENE: All right. So, when you're talking about eroding of a tax base, you're talking about a out-of-control valuations that we've had lately. And you're expecting that to be the norm for the future and this will slow it down.

JON CANNON: It may. But it may not. What Senator Erdman has put into this bill is the provision that from one year to the next, you can't have an erosion of more than 15 percent. In some years, that might be highly inappropriate if you've got the bottom fall out of ag land values like it did in the 80s. You know, in-- in-- so that that certainly is--

GROENE: But that will be eroding of the tax base.

JON CANNON: Yes, sir, it would.

GROENE: So this actually puts a stop gap in there.

JON CANNON: Again, the-- the tax base that we're looking for, that we're interested in, is what market value can afford. And if market value is-- is at an appropriate level, I mean, in-- you know this better than I do, Senator, I mean, you've-- I had a conversation with you once about ten years ago about this and I knew I was way out of my depth, but in theory as values go up levies go down, and I think that what you'll find from county officials, and I can't speak for any other political subdivision, I think that what you'll find from county

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officials is they've done a pretty remarkable job of keeping their levy rates down and in some cases, going down. You know, again, I mentioned in earlier testimony that you've got 11 cents up in Cuming County and you go to 50 cents in Gage County. But generally speaking, the statewide average for counties is-- it's not 50 cents, which is the max that the counties are able to levy, it's somewhere around 26 cents. You know, I think that's-- that county officials they-- they own property in the county as well as everyone else. They're interested in controlling their property taxes. They don't want it to-- to be outrageous. They're doing a pretty good job, we think, of controlling those.

GROENE: And you're correct, when you look at taxing entities who's been egregious, it hasn't been the counties taking advantage of valuations. So why are you sitting there? Think the schools and community colleges and all of those who've done quite well with the windfall from huge valuations would be sitting in that chair. You guys have actually done a pretty good job not being greedy, put it that way.

JON CANNON: Well, thank you-- thank you, Senator. As far as we're concerned though, when you start to erode, chip away at the tax base and-- and you're reducing overall levels of value for a particular class of land, particularly in a county where you've got a lot of agricultural land and horticultural land, then all of a sudden you're going to see, because of the fact that-- that the county officials have services they have to provide. You know, they have-- and we've gone through all that before. You're going to start seeing them raise up their levies. And so you're going to have some counties that are right next to each other that-- that, one, for whatever reason had a pretty high levy and the other one did not, had a pretty low levy rate, that one county is going to have the ability to raise its levy to make up for the loss. The other county on the other hand is just going to be left holding the bag.

GROENE: Thank you.

JON CANNON: Thank you.

LINEHAN: Thank you, Senator Groene. Other questions from the committee? Senator McCollister.

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McCOLLISTER: Thank you, Madam Chair. Thank you, Mr. Cannon for being here. As you look at the fiscal note on this bill, it says zero. That almost seems counterintuitive to me. If you value-- you start valuing farmland on its productive value instead of its market value, you would seem to generate less tax revenue. And then you said it that the tax-- the tax base would be starved in future years. Can you explain the error of my ways or the rationality in this-- this-- this [LB]283 with-- with--[LB]483 with no fiscal note?

JON CANNON: My understanding is the reason there is no fiscal note on the first year, Senator, is because we're going to keep the values the same from 2020 to 2019. However, moving forward that's where it gets a little bit trickier to-- in order to be able to forecast. And I'm not-- I'm not in LFA so-- or I'm not in LFO, I wouldn't be able to replicate their models. But what I can say is-- is that there is a danger that-- that the use of a board, which is not necessarily using market analysis or market figure in order to set a cap rate, which you're going to be using a whole bunch of other different factors, the danger is that that board is going to artificially depress the market value which gets us away from the uniform proportionally clause that we require for ag land.

McCOLLISTER: Didn't quite answer my question, but thank you.

JON CANNON: Sorry, my-- my apologies, Senator.

LINEHAN: Thank you, Senator McCollister. Senator Briese.

BRIESE: Thank you, Chairman Linehan. Thank you for being here.

JON CANNON: Yes, sir.

BRIESE: So you've described quite a few concerns about this, but the main concern, as I understand, is the cap rate. Would you be OK with this bill if we had more of a standard for the capitalization rate, a benchmark to go by, a uniform capitalization rate?

JON CANNON: Well, the-- the problem, Senator, is that when you have 93 different cap rates, then you're going to-- you're going to raise the specter of inter-county disequalization. The danger of having a single statewide cap rate is that that's going to-- that's going to create a different kind of this disequalization because one size does not fit all. I think eastern Nebraska is probably going to look a little-- little bit different than western Nebraska as far as incomes are

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concerned, which is where you derive the cap rate. And so there-- there's a danger for trying to apply it, you know, a blanket policy that fits the entire state, there's also a danger that we see them saying we're only going to have a capsulized cap rate that's going to-- that's going to apply only to one county as opposed to, you know, say looking at a region, or-- or something like that. And so, you know, there's-- there is a danger of going to one extreme or the other.

BRIESE: More uniformity within the capitalization rates would address some of your concern?

JON CANNON: It could. I'd have-- I'd want to look at that modeling first, sir.

BRIESE: I personally am not sure why we need mobile capitalization rates. It seems like a uniform capitalization rate might be doable, but anyway.

JON CANNON: Yes, sir.

LINEHAN: Thank you, Senator Briese. Other questions? Did you sit down with Senator Erdman all summer, you or the county officials?

JON CANNON: Just my own personal history, ma'am. I was-- at the beginning of last summer, I was at the Department of Revenue, and then I went to the Nebraska Association--

LINEHAN: Do you know of anybody from the county officials sat down with Senator Erdman?

JON CANNON: No, ma'am I do not.

LINEHAN: OK. What happened-- we keep talking about, and I understand that, what's the term you used? Eroding the base. What happened in the 80s when everything went completely down; banks closed, farmers went broke, nobody had any money? What did the counties do? They survive somehow.

JON CANNON: They survived somehow, ma'am. At the time, if I recall correctly, there was much more state aid that was given to counties than there is currently.

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LINEHAN: But-- OK. They surely-- there's counties out there that are concerned, because they were here in the 80s for price. Some people are on a county boards in the 80s. They're still a county board today, and they must be feeling like I've been here before a little bit.

JON CANNON: We've-- I've heard that said, ma'am. Yes, ma'am.

LINEHAN: OK. Thank you.

JON CANNON: Yes, ma'am.

LINEHAN: Other questions? Thank you.

JON CANNON: Thank you.

LINEHAN: Other opponents?

TOM PLACZEK: Good afternoon, Chairwoman Linehan, and other members of the Revenue Committee. My name is Tom Placzek T-o-m P-l-a-c-z-e-k. I am the Platte County Assessor and I represent the Nebraska Association of County Assessors. I'll make this fairly brief. Mr. Cannon spoke to several of the issues that concern us. I think our greatest concern is this bill is designed, I believe, may not be the first year, but over time designed to lower ag values. I don't believe it's to have any relationship with the market as it sets. Ag land sells for a lot of different reasons. Productivity, at least in the northeast district that I'm from, is one of the least. There are so many other factors that enter into it that I don't think productivity is even in the top five. And I believe this-- this bill will artificially lower the valuation. Now, I can say this, if you were to follow this model and the assess value now becomes a productivity model, then just require that all sales are at assessed value and you take the market totally out of it and, "whammo," we're done and-- and I'm happy and the farmer is mad because now they can't sell it because that's what the market says it's worth. You know, the market will be totally different than what the productivity is. We are required as assessors to be uniform and equal and at market value. I don't see any real mention of market value in this bill. The Ag Board has proposed is, as I can see, pro ag. There is not even an ag land appraiser on this board. I don't even know how you cannot have an appraiser on this board. A good board would have members that have dissenting views. That only makes for good valuable discussion, but also brings about more balanced opinions. And this proposed board has none of this. I think the way it's set up now, I think it's real ripe for cap rate manipulation and

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there will be an incentive to have a very high cap rates to drive the values down. There was a couple of things mentioned and I'd like to clarify a statement that Senator Erdman said that I'm not sure where he gets this, but he said that we value good ground the same as poor ground. That is not true in any of the counties in the northeast district that I'm from. And I know in Platte County, I just set ag values. We have various values from our high end, 1A1, irrigated ground, to our 4A ground, and there is like \$2,500 an acre difference in valuation. And that's-- and we have two different market areas to take care of the differences that sales show that exist. The values of land are slowly going down. Last year, we did irrigated ground and lowered it. This year we're doing dryland. We actually looked at doing our irrigated again, and I started out doing that, but found out I was-- I had to leave it the same just so I could stay within the 69 to 75 percent ratio. Ag land still sells, still sells at a good value. Is it more challenging? Most certainly. It's the-- the industry has changed and there's a lot of reasons that have changed it. Will it be like this forever? I doubt it. It never has and never will. But markets do change and circumstances change and it'll be the strong that survive, and that's the way all industries are. One thing was-- the last thing I will say is the problem with real estate taxes being too high, I don't believe has much to do with valuation. I think it has everything to do with the lack of state funding for our education, a broken TEEOSA formula, and way too many exemptions. Valuations are merely a reflection of market changes that in this for ag land, farmers and ranchers were active participation-- participants in., And with that I'll just end and take any comments that you might have-- questions.

LINEHAN: Thank you. Are there any-- Senator Groene.

GROENE: Thank you. Is the speculative market gone? I mean do you still have somebody come in that maybe grew up in Columbus area and became a neurosurgeon comes back and buys a couple quarters.

TOM PLACZEK: Senator, we have never had that issue. I know what-- I hear about it from others, outside investors and that sort of thing. That's just never been a factor in our area. And this-- in our particular, I'll say the northeast district which we're a member of, I'm good friends with several of the assessors and that's just not an issue.

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GROENE: You have it along the Platte River with duck hunters and goose hunters.

TOM PLACZEK: We have had some. And we value that as rec ground, you know, it's--

GROENE: What about the rancher, the farmer who owns some--

TOM PLACZEK: We treat that at-- we-- now is that at a lower value like it would be as if there was no rec value to it. It's a special valuation issue.

GROENE: -- folks in that area and they're paying 200 bucks a cow/calf on accretion lands that they've been holding for a hundred years.

TOM PLACZEK: You know, I can't speak to how other counties are doing it.

GROENE: That's in Schuyler, that's in Colfax. I guess you're Platte.

TOM PLACZEK: We haven't had much of that. We haven't had, actually I think we've had one sale of rec ground in the last six, eight years. It just hasn't-- hasn't been much of an issue. It's not that there aren't duck hunters and stuff in the area, but we just-- it just hasn't been an issue for us. I know other areas have had some of those issues and I can't speak to how they deal with it. But we have special valuation and the people that can-- that bought it for duck hunting and that's what they're using it for, or deer hunting or whatever, and they're not putting any cattle on it or anything like that, they're paying a much higher rate than the neighbor right next door that's, you know, running cattle in it or whatever, so.

GROENE: Thank you.

LINEHAN: Senator-- thank you, Senator Groene. Senator Friesen.

FRIESEN: Thank you, Chairman Linehan. You did make a statement at the end where you said, you know, farmers were active participants in driving the valuation up. I take a little bit exception to that because there's probably only 3 percent of the farmers that purchase land at these high prices and the other 95, 97 percent, we're not active participants in driving this up. No-- no different than homeowners. We're seeing homeownership valuations spike right now. And

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somebody who's lived in his house for 20 years is paying the price of those increased prices too. And I--

TOM PLACZEK: True.

FRIESEN: So, we got to admit that there's a small percentage, when we do it the way we do it, it's based on those sales and you may not be an active participant, but it's a very small minority that's driving it.

TOM PLACZEK: True. Yeah. But that's, I guess, that's what a market is.

FRIESEN: That's what it is.

TOM PLACZEK: And--

FRIESEN: I don't disagree with that.

TOM PLACZEK: OK.

FRIESEN: I'm disagreeing with the active participants.

TOM PLACZEK: OK. Well.

FRIESEN: There are a lot of people who are not active participants.

TOM PLACZEK: And I understand that, and it's a good point. But I guess my point was that it's the farmers and ranchers at work or in it get involved in-- and for whatever reasons that there might be were purchasing these properties. And what always slays me is when somebody says well there's no way that land is worth that. How do you know? This gentleman bought this operation for a lot of reasons and maybe it works great for him and his business model works-- that works great. I guess it's hard to say that it does or it is or isn't the right value for that piece of property, so. But you make a very valid point. I understand where you're going-- coming from.

LINEHAN: Other questions from the committee? You made a comment the reason property taxes are high in Platte County is because the lack of funding for TEEOSA.

TOM PLACZEK: No, I'm just saying real estate taxes in general. I'm not saying necessarily for Platte County. But--

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LINEHAN: Because you know how much Columbus gets from-- Columbus Public Schools gets in state aid from TEEOSA.

TOM PLACZEK: Probably nothing. I have no idea.

LINEHAN: Well, I don't know exactly because I can't get my staff to answer me, but I think it's close to 50 percent funding.

TOM PLACZEK: I-- I would be-- I would be shocked at that because our valuations--

LINEHAN: I know. That's what-- most people would be shocked. That's part of our problem.

TOM PLACZEK: Because our-- our valuations are so high. But--

LINEHAN: I know, you have \$1.05 levy; your valuations are high; 25 percent of your kids go to private schools.

TOM PLACZEK: Yeah, yeah, we have a lot of private schools.

LINEHAN: And you get almost 50 percent of your money from state aid.

TOM PLACZEK: Yeah, that could be. And I'm just talking about in general. There's a lot of-- of rural schools and rural districts that-- that get nothing. I don't believe Lakeview Schools--

LINEHAN: But they're not Columbus.

TOM PLACZEK: No. And again, I'm not speaking just to that.

LINEHAN: Lakeview get quite a bit of opt-in funding.

TOM PLACZEK: I don't know what that opt-in funding is.

LINEHAN: OK.

TOM PLACZEK: I don't deal with TEEOSA. I would just understand--

LINEHAN: But you said it was because we didn't get enough state aid.

TOM PLACZEK: OK. Point taken.

LINEHAN: OK. Thank you. Other questions? Senator Briese.

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BRIESE: Thank you, Chairman Linehan. Thank you for coming here today.

TOM PLACZEK: Yes, sir.

BRIESE: Were you asked to pro-- or offered a chance to provide some input on this proposal?

TOM PLACZEK: I-- I don't recall hearing anything from Senator-- and it's-- I'm not against that sort of thing. Senator Erdman and I have had discussions in the past on various things and we, a lot of times don't agree, but I did support his-- I believe it was [LB]372, so hopefully it gives me a pat on the back for that.

BRIESE: OK. Thank you. And your biggest concern is the cap rate-- correcting that cap rate manipulation.

TOM PLACZEK: Well I think in this operation-- yeah, I think that it's very open to manipulation and I don't know if you're familiar with--

BRIESE: If it was-- if it was tied to some benchmark, would that calm your concerns?

TOM PLACZEK: That could probably make it work. Like Mr. Cannon said, you-- do you do it on a per-- on this case it's a per county basis. Now, is each county going to be way different? I don't know. But once they start to get differences, you're going to start having differences in school districts, some along, you know, district lines, school district lines and trying to avoid that. I don't know how much difference will be. The devil's always in the details. And how this is all going to work out, we don't know. But I've seen cap rate manipulation in many forms through the years and, for commercial property for instance, and to get loans and things like that, how this works. I would love to see an ag-- true ag land appraiser be on this board. You know, they would lend some credence to how this works. And I just think we have to be very, very careful which way we go.

BRIESE: OK. Thank you.

LINEHAN: Thank you, Senator Briese. Senator Groene.

GROENE: Who's doing a manipulating cap rate?

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TOM PLACZEK: Well, I've seen-- when you get in the cap rates, for instance, a lot of times you'll see cap rates and they might vary from by 2 percent--

GROENE: Between counties.

TOM PLACZEK: What's that-- what's that?

GROENE: Between counties.

TOM PLACZEK: No, I'm talking about like an individual-- somebody is doing a valuation on a-- on a building or something like that. And you can see cap rates vary from-- all the range is anywhere from 7.5 to, say, 9, 9.5, whatever.

GROENE: But isn't the cap rate county wide? Or is it an individual--

TOM PLACZEK: Cap rates-- this would be a countywide cap rate.

GROENE: Yeah.

TOM PLACZEK: Yeah, yeah, in this particular way it stated, yes. I'm just concerned about how it's arrived at.

GROENE: But who sets it? The state sets it, right, the Department of Revenue, for every county?

TOM PLACZEK: Well, the ag board is going to set it is my understanding, not the-- not the Department of Revenue. They may have some input. I'm not sure. Probably a little input.

GROENE: I don't-- I don't understand this a concern about ag valuations being stagnant or going-- or not increasing. You've got another variable called the levy. The elected officials can raise their levy if the valuations which-- they won't get re-elected, but maybe that's what we need to be.

TOM PLACZEK: I'm just saying, when we get into these-- the valuations, I-- I just do not believe the valuations are the issue. The market is usually a pretty effective indicator of what's going on and, well so--

GROENE: And I agree with Senator Linehan, in your defense, Columbus is landlocked and it's probably-- like North Platte, has less than 10 percent ag land in its valuation.

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TOM PLACZEK: We have very little ag land.

GROENE: But your Lakeviews and stuff, those guys are--

TOM PLACZEK: Lakeview is a huge district in--

GROENE: Humphrey's.

TOM PLACZEK: Right. Humphrey-- and I will say this, and on behalf of [INAUDIBLE]-- Lakeview School District and some of those, they've done a very good job throughout this market run up of farm valuations. I think Lakeview is down to 56 cents or something like that, which according to what I've seen on some, that's pretty low compared to a lot of them. Humphrey is even lower. So, but they have the best land-- farmland in the county.

GROENE: And thank the Catholics too. It's [INAUDIBLE] St. Francis.

TOM PLACZEK: Yeah, and Lindsay Manufacturing is located-- so there's a lot of differences hooked onto it, so.

LINEHAN: OK, any other questions? Thank you very much for being here.

TOM PLACZEK: You bet.

LINEHAN: Other opponents? Opponents? Neutral?

JOHN HANSEN: Again, Chairman Linehan, members of the committee, my name is John Hansen, J-o-h-n H-a-n-s-e-n, and I'm the president of Nebraska Farmers Union. Well, at least compared to the two bills that really dealt with valuation today, we're going to be fair, we're going to be neutral. We're not going to support either one for different reasons. Conceptually, we like this bill. We've spent a lot of time working with senators in the past to use this kind of earnings capacity formula. I think it's more fair. But if I actually believed Jon Cannon or Tom Placzek's concern that ag land valuations were going to go down in the future, I would support the bill. So there you go. So we're-- what I said earlier today was that if you look at where we're at for our ag land valuations compared to all of our neighboring states, we are too high. And so if-- if there would be a more appropriate valuing of ag land, which would-- I would not call an erosion, but a more realistic valuing of it and I-- I thought we were using this formula and we're going to end up at the end of the day with a substantially lower level of value we'd be in enthusiastic

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support. But when I go out to the country, when I talk to my members and I say we have a new way of valuing ag land and they go: good, so what's the new ag land value going to be? And I go, it's going to be the same. They're just going to look at you and go, what? Well, what was the point of that? And so while there are some values, I think, to what Senator Erdman has been doing, and I applaud him for his work and his effort in this area, but at the end of the day I can't sign off on a bill that I think in my technical analysis, having done this for a long time, that we're not going to end up at a substantially lower place. I can't sign off on it. So I-- I-- I got a good running start conceptually, but I couldn't get to yes because of that. The capitalization rate has a lot to do with how all of this ends up. And I've been bit by that dog many times in a lot of the models that we've run and efforts in the past and I do admit to having Senator Coordsen's files in this whole effort in my Farmers Union basement and it takes up about half of a file cabinet. And so, this ain't my first rodeo. So I know that there's ways of doing it where you can end up with lower values and I know that. And if we were there, I would be at yes. And so, thank you for your kind consideration. And I'd be glad to answer any questions if you have any.

LINEHAN: You are neutral, right?

JOHN HANSEN: You betcha. Really firmly neutral; not neutral yes or neutral no, but really firmly neutral.

LINEHAN: Are there questions from the committee? Senator Groene.

GROENE: But didn't Senator Erdman say that he's looking out 20 years, like we wish somebody would have done in 1990 or whenever. What was going to happen. He doesn't want this valuation thing to ever be a factor again. That-- he's not trying to go backwards. There's ways we can do that with property tax bills, but he's looking at that factor doesn't happen again. And the whole big picture, I mean, why wouldn't you be for that?

JOHN HANSEN: Well, my-- my perspective is-- is perhaps tainted by the fact that I was involved in 1990 to come up with a similar formula and did help get that-- convince voters it was the right thing to do for ag in the state and that the Supreme Court rained on our parade. And so then we had to circle back and try to come up with some alternative way to value things. So in the long term, the old saying is: in the long term we're all going to be dead. In my case, might be not quite

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so long. But-- but so, on down the road, yes. But I'm still-- given the severity of the crisis that we have today, in my opinion, it's on a comparable level to the 80s. And so if-- if I go out to my folks and I try to convince them today that we're going to come up with a new more complicated formula that they don't really understand very well and we're going to start out at the same place that we just left off in the old one, that dog won't hunt.

LINEHAN: Any other questions? Thank you very much for being here.

JOHN HANSEN: Thank you.

LINEHAN: Any other-- oh, yes, we have another neutral. Hi.

SCOTT PETERSON: Senator Linehan, members of Revenue Committee, my name is Scott Peterson, S-c-o-t-t- P-e-t-e-r-s-o-n. I just got done in Judiciary, I'm hoping that you guys will be nicer. [LAUGHTER]

LINEHAN: Depends on what you say.

SCOTT PETERSON: I am here on my personal behalf. I'm an attorney and rancher in Cherry County, Nebraska. My law practice has offices in South Dakota and Nebraska. I represent about 500 clients in north central Nebraska and about 300 clients in south central South Dakota. I'm also-- but not here in a representative capacity, I'm chairman of the Tax and Credit Committee for the National Cattlemen's Beef Association; members of the Tax Working Group from Nebraska Cattlemen; treasurer of the real property and trust section of the Nebraska State Bar Association; the director of the Cherry County Ag Society; and also an appointed a member of the tax incentives council for Blueprint Nebraska. So I spent a lot of time thinking about these issues. I'm going to start with this bill and some of the small concerns that I have. Obviously, a valuation bill that values ag property based upon its income source has worked in the other states that surround us. What you'll find if you do the research, and I'm sure you've been told this multiple times, is that the, basically, with a tax paid in Nebraska is \$100, then that tax paid on the same ground in South Dakota is going to be \$50, and that same ground in Kansas is going to be \$20, and the same ground in Colorado is going to be \$20. Puts us at a significant competitive disadvantage. So generally, bills like this are work and have worked in other states. I am somewhat concerned with this bill in the fact that the grazing land portion of it, which makes up most of the counties that I'm in, relies upon the University of

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Nebraska's information regarding rental rates. Historically in my practice, I have found that that data probably doesn't collect enough data sets and is not always reliable. And so that's why I would be here in a neutral capacity is to question whether that's a reliable form that we can rely upon. As a side note, Senator Erdman's son, I believe Phil and I were here in 1997. I was a page for the Revenue Committee at that point time, so I also remember Senator Coordsen and Senator Wickersham. But Phil and I started ag week at UNL which is still running today. That's a long time ago. So I also remember when Phil was a senator, and I believe he also brought some bills similar like that in about 2003. So it's not like you guys haven't been talking about this for a long time. I think what we're looking at from our state is that, in my opinion, we-- we have a very archaic method of collecting revenue. Real property is considered something of value that we can extract revenue from. But we don't extract revenue from much more valuable sources of property like intellectual property and other types of property. And so we are unfortunately creating an additional burden on our state's largest resource which is agriculture, because so much of their business relies on that type of property. I can tell you from my personal experience, I don't ranch much, but I ranch just enough to have about \$40,000 in gross income. I pay \$4,000 in property tax on that \$40,000 in gross income. Guess what, I don't make money ranching. The property that I use for my legal business, which makes the legal business and the title insurance business have a gross of probably close to \$500,000 would pay \$3,000 in property tax. This to me seems grossly unfair. This is why farmers and ranchers are going broke is because before they start work every day, they're paying a dime of every dollar to this county, the school, everybody else before they get anywhere. You don't have to worry about them paying income tax because they don't make income. What I see from my practice is, luckily we had high values in '14, '15 and '16. I'm going to be filing my first bankruptcies for that class of clients in a long time this year. And I'm probably-- I'll probably file two to four this year. And if things don't change, I'm going to file 15 to 20 next year. And so that's not happening in South Dakota, because they don't have the property tax burden. And so this is a real issue. I've been at the Legislature a few times banging on the table telling people this is a real issue. Senator Friesen has probably seen me more times than he wants to saying this is a real issue. And so I think we have a unique opportunity this year to address it. There is going to be some give and take between chambers of commerce and the ag

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community. And so I hope everybody can get on the same page and get something done.

LINEHAN: Thank you very much for being here, Mr. Peterson. Excuse me. Do we have questions from the committee? I think Senator Friesen knows we have problems.

SCOTT PETERSON: He and I are aware--

LINEHAN: He does his own banging.

SCOTT PETERSON: He bangs on the table. I just wanted to come and help him bang on the table.

LINEHAN: I do have a question for you, because I think maybe you're in Cherry County. I've wondered about this, it came up earlier. What about-- because this even happened it's where I grew up, people who come in and buy 80 acres or 160 acres, or maybe where you live a section, for hunting and recreational purposes. Do they get-- is there different value on that land then than ag?

SCOTT PETERSON: I don't think that our assessor values that separately just because they buy it-- for the purpose that they buy it for, because I don't think she can figure that out. OK? Our land in Cherry County, obviously, has the Niobrara River-- the Niobrara River--

LINEHAN: Right.

SCOTT PETERSON: There will probably be some recreational value that is placed on portions of that. But historically, our assessor has not placed recreational value. I think in the past two to three years she has started separating that out to some extent. Our issue is-- is similar to probably what you would have in your county is you have a lot of out-of-state investors that come in and buy big plots of land.

LINEHAN: Right, because of where you are.

SCOTT PETERSON: Whether it's recreational or whether it's the dream of being a cattle raiser or--

LINEHAN: And they could afford to lose money.

SCOTT PETERSON: Yeah. And the fun part about that is that it doesn't take them very long to figure out that our property taxes are really high and they go to another state. That is the one thing that you

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don't always see, but is accurate reflected. I think I've had five clients in the last six years move to another state because they can't stand paying the property taxes and it's so much cheaper to ranch in other states.

LINEHAN: Thank you. Senator Groene, did you have a question?

GROENE: Yes, Chairman. You said high-end bankruptcy; people came in and paid too much for the land. They were the first one-- is that what you were saying?

SCOTT PETERSON: My bankruptcies won't be the high-end clients. The high-end clients are the ones that are leaving because of property taxes.

GROENE: But do you think the property-- these are long-time ranchers who are going bankrupt?

SCOTT PETERSON: The bankruptcies that are going to happen right now will be the people who made investments in the last six years. We will see-- obviously, you're seeing refinancings on the long-time ranchers who have not been in debt but are becoming in debt, which you also see in the farming community as well.

GROENE: How much of Cherry County has some state and federal land doesn't it? Is there a pretty good chunk of that?

SCOTT PETERSON: We have McKelvie Forest which is-- causes a significant issue in the school district that I'm in, which is Cody-Kilgore which receives a significant amount of state aid because a large part of that district is covered by federal land.

LINEHAN: That's probably federal aid, going through the state.

GROENE: Thank you.

LINEHAN: Thank you, Senator Groene. Other questions?

SCOTT PETERSON: This was so easy. I'll come here every day, don't send me back to judiciary.

LINEHAN: Thank you for coming today.

SCOTT PETERSON: Thank you.

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LINEHAN: Anyone else in the neutral position? OK. Would you like to close, Senator Erdman? I can-- you want me-- I'll do the letters before you close. Proponents: Kevin Cooksley, Nebraska State Grange; Terry Jessen, Oshkosh; Jerry Green; Marlene Bedore. And there were no opponents and none in neutral.

ERDMAN: Thank you. Thank you for your commitment to sit here all this time. I listened very closely to the testimonies. I appreciate Ms. Scott explaining the technical part of this. The committee, the Land Valuation Committee will be able to determine what the capitalization rate would be, how many there should be. I handed you a document that is an explanation of what they do in South Dakota. And this is for your information to understand the concept. We will do it similar to this, but this is just a concept of how they do it. I thought maybe that might be some clarification of what they do. So I had extended an offer to the assessor that testified to help me. He didn't volunteer to help. NACO knew what I was doing. They didn't volunteer to help either. So what it boils down to, we don't want to change this because some tax policy may be manipulated. Tell me one that we've ever implemented that wasn't being able to manipulate it. So we shouldn't do anything. So Mr. Cannon, and I'm going to respectfully disagree with him, says the system we have now is OK, we should continue to do this. I wasn't going to say this but I'm going to. That system was thought up by some drunk in a dark room with a light off. That's how stupid that is. In 2011, the TERC Board and the PAD commissioned a group from Arizona to understand or establish a value or give an opinion about what we do to value ag land. And I didn't bring that with me because I didn't know we'd get into that. They absolutely-- absolutely said what we do to value ag land based on sales on the minimal amount of sales we have does not and will not meet the standards for mass appraisal, does not. I'll get that information for you. So to have them sit here and say that what we're doing now is a good idea is beyond me. I can't understand that they would actually say that in public. It doesn't work. Five sales in your county, and you heard them talk about how many sales they have, five sales in your county and you're going to adjust the value. One year in Morrill County we had two sales in the northern tier of the county; in three years we had two sales. So we borrowed sales from other counties and raised the value 10 percent based on the other sales in other counties. Tell me that's fair. Mr. Hansen said it's a difficult situation to explain what we're trying to do here; hard for him to understand. Try to explain the method they use now, try that. And when

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you get that figured out that you can explain it to me, let me know and I'll come and listen to you. You talk about difficult. It's difficult. And, Senator Groene, you're exactly right. If we'd had this in place 20 years ago, the values wouldn't went up like they went up; and the values will go back up again. And Senator-- and John Hansen is looking for a decrease in value. I understand that, all of us are. I would like to do that also. It's not possible. And if we put this in place it'll stop that from happening the next time, because the values are going to go back up. We had a land sale last Friday back home. I listed a farm for sale. In our area, \$3,500 is a lot for irrigated ground. This wasn't the best ground. My goal was \$2,500. If we get \$2,500, we did good, right? It bring \$3,500. So ag values in my area are not going down. They may not be going up, but they're steady. So as we continue to move down the road, I have a chart my office that shows ag land values over the last 50 years and it's up and it will be again. This is a fair way to market-- to value ag land and the market approach does not work the way we do it. And I'll get you the information from that research from Arizona. It's absolutely describes and shows you exactly where the fallacies are in this market-- mass appraisal approach and we don't even come close to meeting those requirements. But we want to keep doing what we're doing because that's what we've always done. This isn't working. And so we have an opportunity, and you heard him say we're the only state in the region that does this. But we're the only state that has a unicameral right? So we have to continue to be different. I'm only going to tell you what, this gives us a chance to catch up with the rest of the world. And I'm going to go on the limb and I'm going to make this my priority bill. It is that serious. This is what needs to happen. And the naysayers that were here today had their opportunity to work with me and did not. We don't have a plan, but we sure hate the one you got. I get so sick and tired of hearing that. I'll answer any questions you might have.

LINEHAN: Thank you very much, Senator Erdman. Do we have any questions? Senator Groene.

GROENE: Do you think most people understand that when a farmer buys an 80 acres and pays way too much for it that he's blending in that-- that in with his other ten 80-acres and he knows that for the next 10 years he won't make a cent on that ground, but he's looking at his grandson and his son to farm that. And without that first ten that he's worked hard and paid for, there's no way he could buy that other

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80 and it has nothing to do with the income value that he's going to get off that farm.

ERDMAN: You're exactly right, Senator Groene. Let me give you an example. I been selling real estate since '03. Shortly after I began to sell real estate, we sold a section of land by Hemingford. The gentleman walked in and he said I'm here to buy this section. I am going to buy this. And I said, oh. And he said, I'll be in the front. And he said, I will have my hand up. He said, you watch for me because I'm buying it. And I said why is that? He said because 50 years ago my dad had a chance to buy that section for \$25 an acre but it was too high. He didn't buy it. He said 50 years I've been driving around that section for 50 years. And he said I don't care what it brings today, I'm going to be the owner. And those are the things that happen and it drives up the value of the land. And you're exactly right, Senator Groene, they put that with their operations so they can bring their grandson or their son back. And there are a lot of reasons why they buy ag land and some of them more to farm, but not all of them.

LINEHAN: Thank you, Senator Groene, Senator Erdman. Any more? I read the letters, I think, that brings the hearing to a close.

ERDMAN: Thank you for your time.

LINEHAN: Thank you very much.