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Revenue Committee  
February 19, 2014

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[LB723 LB922 LB938 LB956]

The Committee on Revenue met at 1:30 p.m. on Wednesday, February 19, 2014, in Room 1524 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LB723, LB922, LB938, and LB956. Senators present: Galen Hadley, Chairperson; Paul Schumacher, Vice Chairperson; Tom Hansen; Burke Harr; Charlie Janssen; Beau McCoy; Pete Pirsch; and Kate Sullivan. Senators absent: None.

SENATOR HADLEY: Okay. Welcome to the Revenue Committee. My name is Galen Hadley and I represent Kearney and the 37th District. And to my left is Senator Schumacher from Columbus; and then you will be joined by Senator Pirsch from Omaha; and then Senator Sullivan from Cedar Rapids. To my far right will be Senator Janssen from Omaha. Well, Harr, he has the things...he got things out of order. Senator Harr; then Senator Janssen; then Senator McCoy; and Senator Hansen from North Platte. Our committee counsel is Mary Jane Egr Edson to my right. Bill Lock is our research analyst. And to my far left is our committee clerk, Krissa Delka. Our page is Drew Schendt from Broken Bow. We appreciate all the help that they do. You can...you got that changed there, Senator Harr?

SENATOR HARR: Yes, sir. Wouldn't want to be in the wrong place.

SENATOR HADLEY: If you'd turn off your cell phones or put on vibrate while in the hearing room. The sign-in sheets for testifiers are on the tables by both doors and need to be completed by everyone wishing to testify. If you are testifying on more than one bill you need to submit a form for each bill. Please print and complete the form prior to coming to up to testify. When you come up to testify, hand your testifier's sheet to the committee clerk. We will follow the agenda posted at the door. The introducer or representative will present the bill, followed by proponents, opponents, and neutral. Only the introducer will have the opportunity for closing remarks. As you begin your testimony, state your name and spell it for the record. If you have handouts, please bring ten copies for the committee and staff. If you have only the original, we will make copies. Give the handouts to the page to circulate to the committee. The microphones are because we tape all of our hearings, and so please to do not play much with them because that just drives the transcribers nuts. And with that, Senator Christensen and we're going to start with LB723. Senator Christensen, welcome to the Revenue Committee.

SENATOR CHRISTENSEN: Thank you, Chairman Hadley and members of the Revenue Committee. I'm Senator Mark Christensen, C-h-r-i-s-t-e-n-s-e-n. I represent the 44th Legislative District. LB723 would amend Section 77-1363 to create a subclass of irrigated cropland when using the sales comparison approach of land valuation for agriculture or horticulture land. In addition, it amends Section 77-1371 to add another guideline that must be considered when using sales comparison approach. Currently,

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many counties will compare groundwater irrigated land with surface water irrigated land and not take into consideration the capacity of the groundwater well or the volatility regulatory actions by the federal, state, local government agencies on surface water. LB723 would require the counties to use a new subclass using comparable sales among irrigated cropland. I have to admit, some counties are doing this already. They're doing a good job, but there's not very many of them. The problem we have seen, I can use an example, in Furnas County where I farm, we've seen decreases in surface water irrigated land from \$3,000 to \$3,600 an acre on surface water compared to the groundwater land solely due to the compliance issues in the Republican issue where they bypassed the water through the dams on down to send to Kansas for compliance. In doing that, if you use groundwater irrigated land selling at \$8,000 an acre currently, the surface water ground selling at \$4,600 to \$5,000 an acre. And so that's what brings the problem that we're...I'm bringing this bill for. There's also another class of irrigated wells that because of the limitations of how much water it can come through the aggregate in the ground, the size of the gravel, sand particles, things that way, and possibly drop in water tables, they can't get more than 300, 400 gallons a minute out on a quarter of ground. And so them acres, too, ought to be evaluated at a lesser price, because if the ground is going to sell in that \$4,500 range instead of \$8,000, it should not be valued at \$8,000 for taxes. You might hear arguments against LB723 saying there isn't enough comparable sales to look at. Well, in Furnas County I sell real estate and I've sold quite a little ground in Furnas County. I can say there was three of them last year in that county just on surface water alone. I didn't get all research through all the counties, but I understand that could be an issue. But I do know that they can look further distance in doing comparables. I think about when I had my house appraised in Imperial one time, the comparables on it, some of them come from north of the interstate, as far away as Big Springs and North Platte and things this way. So it's not uncommon to go out into a different county or quite a distance away to compare equal-sized homes or land of different classifications. So I do believe it's something that needs to be considered. That's why I brought LB723 to you today to see if we can reduce taxes on the people that really don't have the value in the land that is being taxed at. Thank you. [LB723]

SENATOR HADLEY: Thank you, Senator Christensen. We've been joined by Senator Harr from Omaha, Senator McCoy from Omaha, and Senator Pirsch from Omaha. Are there questions for Senator Christensen? Senator Hansen. [LB723]

SENATOR HANSEN: Thank you. Thank you, Senator Christensen, for being in Revenue today. You started at your opening saying there's only two classes, is that right? Dryland and irrigated. [LB723]

SENATOR CHRISTENSEN: Yes. [LB723]

SENATOR HANSEN: So no matter what the production of the well is, irrigated is

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irrigated is irrigated. [LB723]

SENATOR CHRISTENSEN: That's my understanding, yes. [LB723]

SENATOR HANSEN: Okay. Is the substrata, the soil, in the Republican River Valley comparable to the substrata in the Platte River, the North Platte or South Platte? [LB723]

SENATOR CHRISTENSEN: There would be areas, yes. Now in the classifications, they do break it down by soil type. They do use some classifications now, and this is adding another one to it. [LB723]

SENATOR HANSEN: Okay. How many subclasses are there? [LB723]

SENATOR CHRISTENSEN: I believe four. [LB723]

SENATOR HANSEN: 4. And based on soil type? [LB723]

SENATOR CHRISTENSEN: Yes. [LB723]

SENATOR HANSEN: Okay. [LB723]

SENATOR CHRISTENSEN: And I could be off on that but I'm sure Larry is going to testify behind me. [LB723]

SENATOR HANSEN: Okay. He'll give us the scoop. [LB723]

SENATOR CHRISTENSEN: He could tell you that I'm sure. [LB723]

SENATOR HANSEN: Okay. Thank you. [LB723]

SENATOR HADLEY: Any further questions for Senator Christensen? [LB723]

SENATOR CHRISTENSEN: If I failed to mention if I could, like Franklin County is a county that has created marketing classes to take that in to bring the surface water into a different classification. That's why I say it can be done. But I'm trying to figure out a way of how we get it done, and that's why this bill sets them classes in. [LB723]

SENATOR HADLEY: So, Senator Christensen, if I'm correct basically your argument is is that irrigated land can have a different value depending on the type of irrigation that is used on the property. And right now in some counties at least, irrigated land is irrigated land. Is that a correct statement? [LB723]

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SENATOR CHRISTENSEN: Correct. Yes. [LB723]

SENATOR HADLEY: Okay. Seeing no other questions, are you going to stick around for closing? [LB723]

SENATOR CHRISTENSEN: Yes. [LB723]

SENATOR HADLEY: Okay. First proponent. Any proponents? First opponent to LB723. How do you get your job done when you're down here testifying? [LB723]

MARILYN HLADKY: Well, I work a lot of Saturdays. [LB723]

SENATOR HADLEY: You have to tell Larry that he needs to, you know... [LB723]

SENATOR HARR: Spread the wealth. [LB723]

MARILYN HLADKY: Yeah, I work a lot of Saturdays and I was there in the office Monday, so yep. [LB723]

SENATOR HADLEY: Thank you for coming down. [LB723]

MARILYN HLADKY: (Exhibits 1, 2, and 3) Yeah, thank you. My name is...good afternoon, Senator Hadley and members of the Revenue Committee. My name is Marilyn Hladky, M-a-r-i-l-y-n H-l-a-d-k-y. I am the Seward County Assessor and here today representing the Nebraska Association of County Officials and Assessors in opposition of this bill. This bill would make it mandatory for these subclasses instead of an option on it. And NACO and the assessors are opposed to it. We already have the ability to create these subclasses and other classes for property. Attached also to your exhibit is a copy of page 5 from the Department of Revenue chapter 10 property regulations that also state how we are supposed to go about with the subclasses. And when I began as assessor in 1995, there were adjustments in place for lift capacity on some irrigated properties. Over time, I was not seeing that it made any real difference in the selling price, so the adjustment was eliminated. The assessor sets values of agriculture land using three years of arms-length transactions. For 2014, sales dating from October 1, 2010, through September 30, 2013, were used. An analysis made of these sales by market areas if a county has them and then by soil types and land use. And Senator Christensen talked about, was asked about subclasses within each of the dry irrigating grass support. There's actually eight subclasses. So I would tell you that the administrator, Property Tax Administrator does annual, statistical, and narrative reports to the Tax Equalization and Review Commission, which is TERC. And TERC reviews the county's report to make sure the assessor's values are compliant with statutory statistical requirements. Along with the statistics for the county as a whole, TERC also looks at the breakdowns of market areas along with land use making sure

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that properties that have 80 percent dry use and 80 percent irrigated use along with pasture are also compliant too. If the assessor is not, then TERC will adjust them. The market should tell an assessor what is happening in their county and react to that when setting values. We have to be able to support the values we set. A property owner can protest the value, but they would need to have evidence to support the requested values. Sales would have to show that it makes a difference, not just I know that it would sell for less. I've had property owners protest their agricultural land that is next to a river where they are flooded out one out of every four years. They wanted an adjustment because of that. I had sales that showed that the land was still selling for higher than my assessed value. So at times, it's hard to tell the property owner it doesn't matter if your land is dryland and your crops dry up for lack of rain or you're flooded out. The values are set strictly based on what the market is doing. Assessors cannot make adjustments arbitrarily. The market has to support those adjustments. In Seward County, I have two market areas. The west part is over the aquifer and has irrigation potential. The east part is not over the aquifer but still has some pockets of groundwater and a few irrigation wells. The rest is mostly irrigated out of rivers, streams, and ponds. In this area, my dryland and irrigation values are actually the same amount per acre for the same soil class. Some of the concerns assessors would be looking at with this bill would be: Identifying these properties for how they are irrigated. How would we get that information? Prior to the HIPAA law, the assessors were able to get information and maps from the Farm Service Agency, but we no longer have access except for if a property owner would choose to bring it into our office. Those maps show field boundaries and use but not irrigation type. We may get some information on some properties but not all. Then I think we would be looking at some equalization issues. What would be the definition of limited capacity? How would the guidelines or thresholds for these be established? Shouldn't that also be set according to what the market is telling you? The county may or may not have the need to create these irrigated subclasses. If you cannot find out how the parcel is irrigated, how will it be categorized? When you begin to subdivide, you have a smaller amount of sales to do your analysis on. Values set on a smaller number of sales may become skewed and less dependable. Property Assessment Division looks at borrowing sales from other counties to give your county additional sales in these subclasses. If I cannot get accurate information, other counties won't be able to either. Currently, Property Tax borrows sales from adjacent counties within six miles of your county's border for their analysis if you do not have enough sales in each of the three study years. So far that's all that they have borrowed sales for. They have been talking of borrowing sales from counties that are not adjacent to your county. Then the assessor is using sales out of areas that they are no longer familiar with. The assessor hasn't verified that sale to know the circumstances of that transaction and to be comfortable with using it. Are those sales in the same type of market that's in my county? That's one thing I would ask on those sales that are two and three counties away from mine. I have opposed the borrowing of sales except if an assessor so chooses to do so on their own. As I have testified on other bills, assessors do mass appraisal, not fee simple, and the

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methodology is very different between the two. Another document I've given you is from the Property Tax Division, that's what it was called then when Cathy Lang was the Property Tax Administrator. It was given to the assessors at one of our past workshops. It's entitled "Valuation is not a Mathematically Precise Science." I won't go over it, but if you could please read it when you have time. It has some interesting and helpful information that hopefully would be beneficial to you. Thank you for your time today and consideration of my testimony. I'd be happy to answer any questions if you have them. [LB723]

SENATOR HADLEY: Thank you, Marilyn. Are there questions? Yes, Senator Harr. [LB723]

SENATOR HARR: Thank you, Chairman Hadley. And thank you for coming down. As I see it, this bill really does two things. It creates a subclass in that it says when looking at comparable sales you're allowed to look at water capacity or availability within that subclass. If we were to eliminate the language of creating a subclass but rather just said you can look at water availability and capacity, would that be acceptable? [LB723]

MARILYN HLADKY: That's a good question, and off the top of my head I'd have to give that some thought. [LB723]

SENATOR HARR: Okay. [LB723]

MARILYN HLADKY: So if you didn't use saying that you had to use the mandatory subclasses, then still leaving the language about you could throw the sale out because of the limited capacity or so forth, you know, as assessor and we qualify and verify all the sales that we have, we have to send them into the Property Tax Administrator. They do a final review on them. And so if I were to disqualify it for that reason, if it was sold in the open market, it's still an arms-length transaction, so I would have a hard time disqualifying that sale from that factor because for that piece of property it's still an arms-length transaction. Does that make sense? [LB723]

SENATOR HARR: It does and it doesn't because you can have two properties adjacent to each other, and based on their ability to draw water that that property owns it's going to affect the value of that property. So I do think it's viable. It's something that should be taken into account when you're looking at the value of that property. If I can only draw X amount of, you know, cubic feet and another property identical. [LB723]

MARILYN HLADKY: And I know there are some NRDs that are fully appropriated now. I'm in Upper Big Blue and we're not. But what I do see is for the areas that have less irrigation potential, you know, over on my west part next to your county, you can get irrigation wells that pump a thousand to 12 thousand gallons per minute. Kind of in the middle to the north part, those wells are only going to pump 200 to 300 gallons per

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minute. So what I see is people putting down two and three wells and connecting them together. Actually, you only need about 600 gallons per minute to run a pivot because they are so efficient. [LB723]

SENATOR HARR: I guess I just...if I'm buying a property, I'm going to worry about water because that to me affects the value (inaudible). And so when you're looking at comparable, I think it's something that should be in the back of everyone's mind. [LB723]

MARILYN HLADKY: And our analysis should tell us that as we review those sales if we know how it's irrigated. That's the problem that I've kind of mentioned in this bill is... [LB723]

SENATOR HARR: Yeah. [LB723]

MARILYN HLADKY: ...how will we get that information. What's going to be in this bill that helps the assessors to get the information whether it's groundwater and so forth. [LB723]

SENATOR HARR: Well, and that's a great question and I don't know the answer to that. But I do think it's something that's often taken into account. So thank you for coming down. I appreciate it. [LB723]

MARILYN HLADKY: Thank you. [LB723]

SENATOR HADLEY: Other questions? Tom. [LB723]

SENATOR HANSEN: Thank you. Thank you for being here today again. Your comments about the HIPAA law, FSA is a federal agency, isn't that open to the public? Can't I go in there and look at someone else's land on FSA maps? [LB723]

MARILYN HLADKY: No, no. We used to just call them and... [LB723]

SENATOR HANSEN: Can I? [LB723]

MARILYN HLADKY: You can go look at your own. [LB723]

SENATOR HANSEN: And that's all? [LB723]

MARILYN HLADKY: But as far as I know, yeah. We can't get maps anymore. We used to get all kinds of maps so that we could match up how many acres in each field we had and then...and how it was being used, how they reported it to the FSA. But since that became into effect, you know, those offices won't give that to the assessors anymore.

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But interesting enough you can find all the other kinds of information from the FSA on the Internet. [LB723]

SENATOR HANSEN: How do you find out if someone put down two or three wells, low-producing wells, to create one irrigated field if it's not through FSA? [LB723]

MARILYN HLADKY: The NRD, we have a very good working relationship with the NRD, and at least in our area if we have a name change of irrigated property, we send it, e-mail it to them. And if they have somebody that comes in and reports that they're changing to irrigated, they tell them that they won't change the irrigation until they go to the assessor's office. Now I don't know if all counties would have that working relationship with their NRDs, but we do with the Upper Big Blue. [LB723]

SENATOR HANSEN: So HIPAA doesn't include NRDs, asking the NRDs questions then? [LB723]

MARILYN HLADKY: Well, the other thing would be is when people come in and file the personal property schedules, we do require the federal depreciation worksheet. We don't always get them but a lot of times those new wells, new pivots are listed on there and then we start to question is this a new well. Is it a replacement one? You know, where's it located, because if we had it dry we're going to want to change it to irrigated. But those won't...none of that will tell us the capacity of the well. [LB723]

SENATOR HANSEN: Okay. Thank you. [LB723]

SENATOR HADLEY: Any other questions for Marilyn? Marilyn, I have a question and it really has nothing...it just tangentially with this bill. We spent a lot of time this morning in Exec Session talking about property taxes and land valuations and such as that. If you could wave a magic wand, how would you go about valuing farmland? If you could...if you as an assessor, you know, if you could have, you know, have a system that you could implement right now, do you have any ideas? I know it's kind of off the track... [LB723]

MARILYN HLADKY: Yeah. [LB723]

SENATOR HADLEY: ...but I know you've been in the business a long time and have probably thought about this. [LB723]

MARILYN HLADKY: Well, for one thing I wouldn't borrow sales. (Laugh) [LB723]

SENATOR HADLEY: I'm sorry, you... [LB723]

MARILYN HLADKY: I would not borrow sales. I mean, I had 43 sales in my county



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which to set land values on, so I always feel like I have adequate amount. That's a tough...Senator Hadley, that's a tough question. I guess I've been so used to taking my sales and I build spreadsheets that are like 72-plus columns long. I break down every sale by its soil, by how many acres are in each one. I use that spreadsheet to come back and I can tell, okay, is it mostly the high quality, the class 1 sale that's driving the market. Is it the lower ones? And of course when you have an irrigated piece of property, you could have anywhere ranging from one down to four for the different types of soil classification on it. Well, those fours are going to be valued a lot less per acre than the ones. So a lot of that spreadsheet in that analysis tells me that. But to tell you how I would change how I do it now, if I think about how to do it I'll e-mail you.  
(Laughter) [LB723]

SENATOR HADLEY: Okay. I appreciate that. Thanks, Marilyn. We appreciate your taking the time to come in. [LB723]

MARILYN HLADKY: Okay. [LB723]

SENATOR HADLEY: Are there any other opponents? Seeing no other questions...? [LB723]

MARILYN HLADKY: Okay. Thank you. [LB723]

LARRY DIX: Good afternoon, Senator Hadley and members of the Revenue Committee. My name is Larry Dix, L-a-r-r-y D-i-x, and I'm here today in opposition to LB723, representing the Nebraska Association of County Officials. Marilyn really covered it well and I just want to bring forth just a couple of thoughts as she was testifying. And one of the things that I've seen over the years is that this has become a very statistical-driven process, and it's driven on sales. It is an analysis that's driven based on numbers, the dollar amount of sales. And so it's moved more toward a statistical analysis. And one of the things that drives that is the ability to get accurate information. And I know, you know, Senator Hansen asked the question about FSAs, and I would tell you when you go across the state you will find some I can...some FSA's office you may walk into and some of those people will say, well, yeah, you're the assessor, I'll let you see this and this one. But it's not consistent. And you may have someone, I think. Senator Christensen and I have had this conversation before. I think he may be in an area where some of the FSA offices may allow you to see a little bit more information than you do in other parts of the state. And of course when you pass a bill similar to this it applies all across the state regardless, you know, of what cooperation you're going to get. The thing that I hear from the assessors all the time, specifically on this bill, is to get accurate information because in order to establish the proper value and be fair and justify their value, they have to have it accurately. And that's one of the concerns is if really trying to get that. Senator Christensen I know had...he and I had talked about the sales in Frontier County, and there were four last

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year. Next maybe there won't be four. Maybe there won't be any. Maybe there will be ten. But again when you start dealing with statistics, you've got to have a representative sample. And that's a little bit of the concern that we have with this with what we're talking about here. Senator Hadley had mentioned, and thank Marilyn of course would be in here, and I want to sort of go on record to thank her also because we try to bring assessors in when we have bills like this so that when there are the technical questions, that there is a good explanation of it so you can really get an answer as to how these things are being treated. But I would ask that each and every one of you, since you deal on the Revenue Committee with so many of these issues, when you go back home spend some time in the assessor's offices and say, you know, help me out, show me how to do this. That's how good ideas come about. I certainly thank Senator Christensen for bringing this bill even though we oppose it because it challenges all of us to start thinking about what do we do, how do we handle water in the future years. So, you know, this issue isn't going to go away by any means. Do I think LB723 is the full answer? No, I don't think so. But I have a feeling we're going to be talking about this in the future years. So with that, I'll conclude my testimony and be happy to answer any questions. [LB723]

SENATOR HADLEY: Senator Harr. [LB723]

SENATOR HARR: Thank you, Chairman Hadley. I think Roger Morrissey would disagree with you. I think he thinks he sees enough of me. I'm going to ask you the same question (laughter) I asked Marilyn. I know Hadley thinks that way. If we were to bifurcate this and just say that water availability and capacity is one of the options you can look at at comparable sales, because it does affect the ultimate price, would you have a problem with that? [LB723]

LARRY DIX: You know, I...again, I would tell you I think if we have accurate information, if somehow we can make an accurate definition of how much water we need, I think it is something that we could look at. I don't think we would want to base our sole analysis on it. But I also think that today the assessors have a little bit of that latitude today in what they're defining as market areas. But, you know, if the market indicates, if the sales and the market indicate that in this area the land is selling at a decreased price because there is not sufficient water, I think the market tells us that. So I think it's there. But should we add it as a component to look at, I think the more information that you have to make an educated decision the better off you are. [LB723]

SENATOR HARR: Okay. Thank you. [LB723]

SENATOR HADLEY: Any other questions for Mr. Dix? Seeing none, thank you, Mr. Dix. [LB723]

LARRY DIX: Thank you. [LB723]

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SENATOR HADLEY: Are there any other opponents? (Exhibits 4 and 5) Seeing none, I'd like to read in the record that we received written testimony from Amy E. Prenda in opposition from the Nebraska Water Resources Association, and John Berge from the North Platte Natural Resources District. Are there anyone in the neutral capacity? Seeing none, Senator Christensen, we appreciate you coming and closing. [LB723]

SENATOR CHRISTENSEN: Thank you, Senator Hadley and committee. I appreciate the discussion we got, and if you think about it, the NRDs are likely to want to oppose this with that letter that you read because if you lower the evaluation, they're going to have less money. You know, we fight that all the time. But the fact is I think we've got to take in them sales comparisons. And referring to some of the discussion that you guys have just had, you know, say there is four sales one year as Larry said, and then the next year there isn't any. But if you compare them four sales compared to the 10 or 15 groundwater sales, you get a percent what they were off. So if the groundwater changes the following year by 10 percent one way or the other, you got to assume that the others going to change 10 percent also, but you've got that percent determined. But as far as figuring out capacity of a well, that's very simple: [www.dnr.ne.gov](http://www.dnr.ne.gov). You can go on there by every legal, by every landowner, by every particular quarter and find every well, pumping capacity, everything about it DNR has. I go on it all the time when I list a farm for sale. I go on to see what the capacity of the wells are. I go on and determine all the information that I can get, the depth of it, the water levels, because that's all important for me when I'm doing a broker price opinion to when I'm evaluating a chunk of ground for sale. And, you know, when they say they're uncomfortable going...crossing a county or two to do a analysis for their work, I don't believe they need to be uncomfortable. I do that all the time on broker price opinions. I've had hired appraisers. They go across the county lines all the time. It's not uncommon. It's not something that can't be done. And it's something that really is easy to do. And like I said, with that DNR Web site, there's other ways. And that is...like on some of the Web sites on ground I own, the well says with DNR Web site it pumps 450. It's down to 315 consistently. I've had it test pumped by Sargent's and others. You could put the burden of proof upon the farmer. If you want it to be in this lower class, you show that you got a proof of either DNR Web site or you got the proof of a certified well driller test pumping it. There's lots of ways to go about this. And I guess it doesn't bother me if you put the burden on me. If I'm wanting lower taxes, put the burden on me to go get the proof. I'm not afraid of doing the extra work to save the tax dollars because you prove it once, then they'll have the scenario set up on the gallonage or anything else you want if that's a criteria that could be used. But right now we're not seeing all the assessors understand that they could do the market approach, market comparisons. And that's why whether it's from new awareness from this bill and when the assessors get together and have annual meetings, they discuss this, they make people aware, or we set up the criteria, like Senator Harr said, I think there's ways of getting this accomplished. And I do think it's something, as Larry said, is going to come back. I maybe can't bring it back due to term limits, but I'm sure I can find

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somebody to do it. I think it is something that we got to look at until we get it adjusted. And so that's why I said. It's easy to know if they have the multiple wells tied together or whatever the case because you got DNR's Web site. And, you know, I guess the...one last thing just to share how this has happened, and what's really brought this on truly is DNR's management of the surface water to hit compliance. Two-thousand and thirteen under Frenchman Cambridge where I irrigate, instead of getting my ten inches, I got three inches. Two-thousand and fourteen, I get two inches. Guess what? I still pay \$10 an acre occupation tax because it's on the activity of irrigating versus if I'd have gotten ten inches I'd have paid \$10. That's why I have a bill in Natural Resources tomorrow trying to get that split out according to how it's used. And the same way here. If you're only going to get two or three inches to irrigate with, if you got to pay \$30, \$40 an acre property tax because you're valuating off the high dollars sale values versus what yours would sell at half that price, again, you're hitting them same individuals. And that's why I've got more than one bill in different committees here trying to get some adjustments here, because I think there is a problem that has really just come to light. Because DNR has already announced they're going to regulate the surface water out again this year. And unfortunately if we don't start doing some of these things to help the people that are being regulated, you're going to continue to see more and more lawsuits. And I'm hoping that we'll take a proactive step here and start evaluating this according to where the sales are, according to the water that's available, because we have the resources to do it. Thank you. [LB723]

SENATOR HADLEY: Any questions for Senator Christensen? Senator Hansen. [LB723]

SENATOR HANSEN: I would. Senator Christensen, if you put one of these pieces up for sale and on the DNR Web site shows that it has a two-inch allocation for next year, what would that do to the land price...to the sales price? [LB723]

SENATOR CHRISTENSEN: Well, it won't say on their Web site. [LB723]

SENATOR HANSEN: It won't say it. [LB723]

SENATOR CHRISTENSEN: No. But you can find out from your local NRD if it's groundwater what your allocation is or from the surface irrigation district what your allocation is. And what we've seen last year was as soon as they said they was going to administer this in late March, early April, a drop of \$3,500 on the...well, the first sale dropped \$3,000, the second one was \$3,500, the third one was \$3,600 under. I have not...I don't know of one yet in Furnas County that has sold again this year to give a comparison now that we're on year two. I had a guy text me today interested in buying one, so I may get to find out because I got one listed. But I don't have a sale done to give you information on yet. [LB723]

SENATOR HANSEN: But it's got to be in direct correlation. [LB723]

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SENATOR CHRISTENSEN: Yes. And I assume the value will have dropped some more. Now this is two years in a row that you're going to get instead of ten inches, got three last year and they're projecting two this next year. [LB723]

SENATOR HANSEN: So it becomes almost irrigated. [LB723]

SENATOR CHRISTENSEN: Yes. [LB723]

SENATOR HANSEN: But it's still the \$10 occupation tax. [LB723]

SENATOR CHRISTENSEN: Ten dollar occupation because it's on the activity of irrigating. And that's why I have a bill to try and split that out based on how much you used, which just takes it to...the cap is \$10 per acre that the NRD can charge, but the cap isn't \$10 an acre on the farm. So if it's a dollar an inch, someone pumps 4 inches, they'll pay \$4 an acre; if somebody pumps 14, they'll pay \$14 an acre. And so it doesn't affect the NRD's amount of dollars they get, but it affects the farmer according to how they use it. And I think that's the way it should be. [LB723]

SENATOR HANSEN: Yup. Thank you. [LB723]

SENATOR HADLEY: Any other questions? With that, we will close hearing LB723. And, Senator Christensen, I believe you have the next bill, LB922. [LB723]

SENATOR CHRISTENSEN: Thank you, Chairman Hadley and members of the Revenue Committee. I'm Senator Mark Christensen, C-h-r-i-s-t-e-n-s-e-n. I represent the 44th Legislative District. [LB922]

SENATOR HADLEY: You're losing your audience, Senator Christensen. [LB922]

SENATOR CHRISTENSEN: I know it. My bodyguard. [LB922]

SENATOR HADLEY: She's taking your bodyguard away. (Laughter) [LB922]

SENATOR CHRISTENSEN: LB922 amends Section 77-5209 to raise the current net worth limit in the Beginning Farmer Tax Credit Act from the current \$200,000 to a new limit of \$500,000. This would take into consideration the new economic realities that currently exist to successfully enter into farming today. I just want you to think about what's the median age of farmers in the state of Nebraska. Would anyone guess it's over 60? Think about if half of our farmers are over age 60, do we have a crisis coming? I believe we do. I believe we've got to take some proactive steps here to try to help get some young people in here. When you compare when this bill came into existence, the Beginning Farmers Act, what the price of land was, what the price of machinery was

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compared to what it is today, that \$200,000 isn't even enough increase if you look at the change in the price of land and machinery. In 1981, I bought my first tractor at \$30,000. That same size tractor today, which wouldn't be used for farming no more, it's not big enough, that same sized one is about \$150,000-160,000. That's from 1981 till today. And a lot of the tractors will be if you're buying them new \$200,000 to \$300,000 the size they're using. I realize they don't have to buy new. I wouldn't recommend that they do. But it isn't just a tractor you need. You've got to have a planter. You got to have sprayers. You've got to have combines, trucks, grain carts. There's so many things involved in this, and I just think it's time that we look at this again, reevaluate it. When you look at the age of farmers, look at our number one industry, and how we can maybe help some more young people get involved in agriculture and be able to make it successfully. Thank you. [LB922]

SENATOR HADLEY: Any questions for Senator Christensen? Seeing none, thank you. Are you going to stay for closing? [LB922]

SENATOR CHRISTENSEN: Yes. [LB922]

SENATOR HADLEY: We've been joined by Senator Sullivan, Cedar Rapids. First proponent. Seeing none, first opponent to LB922. Neutral. [LB922]

BRADLEY LUBBEN: (Exhibit 6) Good afternoon, Senator Hadley, Chairman Hadley, committee members. I am Dr. Bradley Lubben from the University of Nebraska-Lincoln, B-r-a-d-l-e-y, Lubben is L-u-b-b-e-n. I'm the vice chair of the Nebraska Beginning Farmer Board and am happy to testify here in the neutral capacity on LB922. The board is responsible for administering the Beginning Farmer Tax Credit Act. We approve or deny applications based upon applicants meeting criteria set forth in the act. Relevant to this proposal, the board has denied applications from beginning farmers and ranchers whose net worth exceeds \$200,000 as is currently prescribed in statute. Potential applicants have commented that with current land and equipment values, it doesn't take many assets to put them in excess of \$200,000. Generally, beginning farmers are seen as individuals who are either just out of high school or college, and it is true that we have many of these traditional types of applicants. However, age is not a factor in the definition of a beginning farmer under this program, so potential beginner may be someone who has been in a career other than farming or ranching for years and has a desire to return to the farm or begin farming. Their family net worth could exceed the limit because of retirement accounts and/or home values, however, they lack liquid assets to beginning farming. Veterans are also expressing an interest in farming or ranching and may be in the same predicament. We should also consider whether allowing individuals with \$500,000 net worth into the program will give those individuals an unfair advantage in competing for landlords over other beginning farmers with much smaller net worth. It is difficult to estimate how many potential applicants have not applied to the program due to the current asset requirement level. For your reference,

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Iowa beginning...the Iowa Finance Authority administers a similar beginning farmer tax credit program. Their net worth limit for 2014 is \$678,731. Nebraska Investment Finance Authority provides financing to beginning farmers with a net worth below \$500,000 and South Dakota's beginning farmer bond program requires a net worth below \$400,000. Thank you for your time. I would be happy to answer any questions you may have. [LB922]

SENATOR HADLEY: Senator Sullivan. [LB922]

SENATOR SULLIVAN: Thank you, Senator Hadley. Thank you, Doctor, for your testimony. How does this relate to any advantages that...for beginning farmers at the federal level? [LB922]

BRADLEY LUBBEN: There are several beginning farmer programs embedded within federal policy, particularly in the farm bill that was just completed. [LB922]

SENATOR SULLIVAN: Okay. [LB922]

BRADLEY LUBBEN: Those would include some loan programs for both ownership and operation. They would also include various elements of conservation programs as well as rural development programs that are targeted to value-added grants and the like. So there are several elements, sort of, of a portfolio of beginning farmer programs from the federal level. They each have eligibility rules of their own. Off the top of my head I don't recall exact numbers or exact criteria. So I don't know how this compares, a beginning farmer under federal terms versus what's proposed here. [LB922]

SENATOR SULLIVAN: Okay. Thank you. [LB922]

BRADLEY LUBBEN: You bet. [LB922]

SENATOR HADLEY: Senator Hansen. [LB922]

SENATOR HANSEN: Thank you. Doctor, it's good to have you here today. It seems to me if we leave this level at \$200,000 it's going to require that beginning farmer have a job in town. And that \$200,000 is not very much assets whether they're rented or purchased, well-used... [LB922]

BRADLEY LUBBEN: Right. [LB922]

SENATOR HANSEN: ...either to plant or to harvest. And a lot of young farmers I know rent machinery, but that continues to go on. But it looks like we're not being competitive with our surrounding neighbors, especially Iowa where it's \$678,000. I'm not sure why you came in here and testified in the neutral capacity rather than gung ho, let's raise it.

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Could you answer that question? [LB922]

BRADLEY LUBBEN: Well, let me answer the last part of the question... [LB922]

SENATOR HANSEN: Okay. [LB922]

BRADLEY LUBBEN: ...and say as a faculty member at the university and the academic representative on the Beginning Farmer Board, I'll leave the decision making to the senators and present the facts and information we have in a neutral capacity. [LB922]

SENATOR HANSEN: Okay. [LB922]

BRADLEY LUBBEN: You are correct when you note that that current \$200,000 limit is a relatively small number. It sounds...\$200,000 sounds like a large net worth. The proposed \$500,000 sounds like a very large net worth, but in some back-of-the-envelope calculations as Senator Christensen noted, \$200,000 doesn't fund a current line of equipment. Interestingly enough, \$500,000 even at financing 60 percent, \$500,000 would not buy a quarter section of land in east-central Nebraska, the same quarter section that they gave away 150 years ago on the...in the Homestead Act. So relative size has changed and that impacts dollars as well. [LB922]

SENATOR HANSEN: Thank you. [LB922]

BRADLEY LUBBEN: Thank you. [LB922]

SENATOR HADLEY: Dr. Lubben, speculate for me, unless we can do something significant to try and get young people back to the farm, what's it going to look like 30 or 40 years from now in the state of Nebraska? [LB922]

BRADLEY LUBBEN: Well, it's...that's a fundamental question that it may take years of research to digest. Certainly we recognize that as a substantial percentage of producers are nearing retirement age, also acknowledging that producers don't tend to retire at retirement age either, but as they do near retirement age and look for a transition, the question is who moves into that piece of ground. The ground is likely to still be operated. The total land devoted to cropland, grazing land, etcetera, perhaps doesn't change substantially, but who operates it is a question of public interest. Without incentives for beginning farmers, they certainly start at a substantial economic disadvantage in competing with established operations. Now established operations want to grow larger typically, and so they are in line to look for land and assets that are available from retiring farmers. Beginning farmers want to get established and grow themselves, and if you look at the average size of a retiring operation compared to sort of the average size of a mid-career or even early-career operator, the mid-career and early-career operators want to get much bigger than what the current retiring farmer



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typically has, which says it doesn't take as many beginning farmers to replace the number of retiring farmers we have. That's a math equation in there somewhere. But it's also fairly apparent that beginning farmers don't have the financial backing to simply get into the land market the current way that established farmers do. So whether it's the federal incentives that provide a step into the industry or whether it's a state incentive such as this that provides a step, they all have a role to play if that's the desired future here. [LB922]

SENATOR HADLEY: Thank you. I asked the same question for the dean out of Curtis, the one that just retired a year, a year and a half ago. [LB922]

BRADLEY LUBBEN: Dr. Sleight, yes. [LB922]

SENATOR HADLEY: Yes. And I don't know whether he was being facetious or not, but he said in 50 years we'll have four to five farmers in all of the outstate counties was his answer at that point in time unless we make concerted efforts to try and help young people get back to the farm. [LB922]

BRADLEY LUBBEN: Right, right. Certainly we would expect if market forces proceed unimpeded and incentive programs don't exist, continued consolidation, larger and larger operations, yes. Exactly what number, we're still a fairly large very competitive industry, so we're not quite down to...maybe not quite four or five but moving in that direction. [LB922]

SENATOR HADLEY: Thank you. Any other questions? Seeing none, thank you for coming in to testify. [LB922]

BRADLEY LUBBEN: Thank you. You bet. [LB922]

SENATOR HADLEY: We appreciate it. Is there anybody else in the neutral capacity? (Exhibits 7 and 8) Seeing none, while Senator Christensen is coming up here, I'll read into the record that we have two letters of support from Jeff Rudolph and Nebraska Cattlemen, and Anthony Aerts from the Nebraska Farm Bureau. Senator Christensen, would you like to close? [LB922]

SENATOR CHRISTENSEN: Thank you, Senator Hadley. Again, I just want to reemphasize I hope you'll take a look at this bill. I hope we can have a favorable vote on it and get it out to the floor because I think it's important that we get young people back on the farm. That also helps get kids in schools and develop a long term for the state of Nebraska to remain strong in agriculture and not have it all invested in a few hands. Thank you. [LB922]

SENATOR HADLEY: Any questions for Senator Christensen? Seeing none, thank you,

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Senator Christensen. (See also Exhibit 9) And with that, we will close the hearing on LB922. And we now start with LB938, and...LB938 is Senator Janssen. Welcome, Senator Janssen. [LB922]

SENATOR JANSSEN: Thank you, Mr. Chairman. It's nice to be here in front of the Revenue Committee. Fellow members, for the record, my name is Charlie Janssen, C-h-a-r-l-i-e J-a-n-s-s-e-n. I represent District 15, which is all of Dodge County, Fremont, Ewing, among other cities or towns and villages I should say. LB938 would provide a state income tax credit to persons who are penalized by the Internal Revenue Service due to nonconformance with the healthcare insurance mandate required by the Patient Protection and Affordable Care Act. If you do participate in the ACA and sign up with the healthcare exchange, you must estimate your income so that the government will estimate your subsidy. If your income does not come in as expected, you could very well be slammed with a bill at tax time to rectify the difference. Many young people can rightfully argue that they will not subject themselves to this. They will pay the penalty to provide certainty and financial planning. This is yet another irony and source of frustration some Nebraskans have with this law. For your information, the penalty if the law would be followed as passed will be the greater of for 2014, \$95 per uninsured person at minimum, basically saying that they make \$9,500 a year in annual salary, or 1 percent of household income over the filing threshold. For 2015, \$325 per uninsured person or 2 percent of household income. Twenty-sixteen and beyond, \$695 per uninsured person or 2.5 percent of household income. And beginning in 2017, the penalties will be increased by the cost of living adjustment. So there's indexing somewhere going on. It is certain when the administration...it is uncertain when the administration will actually follow the law that the President himself signed into law. I sympathize with the Department of Revenue and our Fiscal Office in their challenge to even estimate the fiscal impact. Enforcement of the law has been arbitrary to this point. According to the Galen Institute in Alexandria, Virginia, based on nonprofit public policy research organization, more than 27 significant changes have already been made to the ACA--at least 10 that President Obama has made unilaterally, 15 that Congress has passed and the President has signed, and 2 by the Supreme Court. I think the discussion of LB938 has merit because Nebraska, as Nebraskans we don't do business in that manner. We plan ahead for contingencies and that's just the way we've always done our business. I should point out that we're in uncharted waters here with this. And I'd put this bill in late after we had a great study throughout the summer, which I was an outspoken advocate of throughout. And this is something that came to me late. It was an idea after I looked at the penalties and you see the fiscal note gets a little bit out of hand. So I just wanted to bring it up for...especially for discussion purposes among the committee. Thank you, Mr. Chair. [LB938]

SENATOR HADLEY: Thank you, Senator Janssen. Are there questions for Senator Janssen? Seeing none, thank you. [LB938]

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SENATOR JANSSEN: Thank you. [LB938]

SENATOR HADLEY: Will you stick...you'll be here for closing? [LB938]

SENATOR JANSSEN: Yeah, once in a while. [LB938]

SENATOR HADLEY: Okay. Are there any proponents for LB938? Opponents for LB938? Neutral for LB938? Senator Janssen waives closing and closes the hearing on LB938. With that, we will go to LB956. If the page would go down to Senator Conrad's office and tell her we're... [LB938]

SENATOR JANSSEN: Chairman Hadley?

SENATOR HADLEY: Yes.

SENATOR JANSSEN: I would like to recognize the Leadership Fremont group that is in the crowd today while we're waiting around here. See them spread out throughout the group here.

SENATOR HADLEY: Thank you.

SENATOR JANSSEN: If we can do that.

SENATOR HADLEY: I see they have a wonderful host who spent many years in Kearney, Nebraska.

SENATOR JANSSEN: We won't hold that against him.

SENATOR HANSEN: The Leadership of Lincoln County was here yesterday.

SENATOR HARR: Was there?

SENATOR HANSEN: 35.

SENATOR HARR: Oh!

SENATOR HANSEN: Something like that.

SENATOR HARR: You get 35 people in that?

SENATOR HANSEN: Yeah. There were six with the (inaudible) people cast. But that was yesterday.

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SENATOR HADLEY: That was yesterday.

SENATOR JANSSEN: 35. You had 35. Lincoln County.

SENATOR HADLEY: But that's 90 percent of Lincoln County population too. (Laughter)

SENATOR JANSSEN: That's not true. That's one of three senators that represents one entire county. Oh, here we go.

\_\_\_\_\_: We're having tape issues.

\_\_\_\_\_: Oh, okay.

KRISSA DELKA: Every tape I put in doesn't work.

SENATOR HADLEY: Working?

KRISSA DELKA: No.

\_\_\_\_\_: Yes.

KRISSA DELKA: It's starting. If you want to go ahead and begin.

SENATOR HADLEY: Okay. Senator Conrad. [LB956]

SENATOR CONRAD: Hi! Good afternoon. [LB956]

SENATOR HADLEY: Welcome to the Revenue Committee. [LB956]

SENATOR CONRAD: Thank you. Senator Hadley, members of the Revenue Committee, my name is Danielle Conrad, that's D-a-n-i-e-l-l-e, Conrad, C-o-n-r-a-d. I represent, as you know, the "Fightin' 46th" Legislative District of north Lincoln. I'm here today to introduce LB956. This is a bill to raise the earned income tax credit by 3 percentage points in Nebraska from the current 10 percent level to 13 percent. And that's 13 percent of the federal credit. The earned income tax credit is one of the most well-established and widely considered to be one of the most effective antipoverty tools that we have available to us. Twenty-six states have an EITC. This builds upon the benefits of the federal EITC offering a hand up to working families, most of whom have children, by reducing their tax bill and providing a refund to those in the lowest income ranges. Many low-wage jobs fail to provide sufficient income on which to live. Refundable earned income tax credits provide low-income workers with a needed income boost that can help them meet basic needs and pay for things that allow them to work, like transportation and childcare. The EITC also encourages the lowest income

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workers to work more hours, thus, helping them stay employed and meet their family's needs. Three out of five who utilize this credit use it temporarily for one to two years until they get onto their feet. Twenty-five states and the District of Columbia have a state earned income tax credit. Nebraska's was established in 2006 and has only been modestly increased since that time, most notably during the last major revenue and tax reform package that we looked at in 2007. I introduced LB956 to raise our rate to 13 percent. The policy basis is because this is based on an average of surrounding states. Iowa is currently at 15 percent; Colorado is currently at 10 percent; and Kansas is at 17 percent. In 2013 according to the IRS, about 137,000 Nebraskans utilized the federal EITC with an average federal amount of about \$2,100. An increase of 3 percent would add approximately \$66 per eligible taxpayer. I urge your strong consideration of LB956 to increase the earned income tax credit in Nebraska and help working families get a leg up. Thank you. I'm happy to answer questions. [LB956]

SENATOR HADLEY: Senator Conrad, thank you. Senator Sullivan. [LB956]

SENATOR SULLIVAN: Thank you, Senator Hadley. Thank you, Senator Conrad. You mentioned that the last substantive change we made was in 2007. What did we do at that time? [LB956]

SENATOR CONRAD: Yeah. So it's my understanding that we first established a state EITC in 2006, and then at 10 percent...excuse me, at...I think it was at 6 percent, and then a year later as part of the largest tax cut in state history package, there was a modest increase at that time, and it's at 10 percent now. [LB956]

SENATOR SULLIVAN: Okay. Thank you. [LB956]

SENATOR CONRAD: And that's where it's remained since that time. [LB956]

SENATOR HADLEY: Other questions for Senator Conrad? Senator Conrad, I have to ask you this question. [LB956]

SENATOR CONRAD: Yes. [LB956]

SENATOR HADLEY: If it's fair to use surrounding states for the EITC average, is it fair to use the surrounding states for their income tax brackets and rates as comparisons? [LB956]

SENATOR CONRAD: That's a fantastic question. And I think that's one factor that we should take a look at and that all serious policymakers have to take a look at in terms of competitiveness and equity. But let me be very clear. Because of your hard work with the tax modernization commission over the interim period, it became very clear that we are going to spend a lot of time this session talking about taxes. And I think that's a

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good thing and I think the commission did thoughtful work and put forward great ideas. With the specific recognition that the burden on low-income working families is real. There's been creative approaches as a part of that effort brought forward that I support and think are interesting. But the bottom line is if we're going to talk about taxes, I think we should talk about everybody's taxes and I don't think that working families, particularly low-income working families should be left out of the equation. We have to ensure that they have a seat at the table and that they deserve a little help as well. And I think one of the interesting components that sets my legislation apart from some of the other interesting and innovative ideas out there targeted to this population is the price tag is very affordable. [LB956]

SENATOR HADLEY: Thank you, Senator Conrad. Seeing no other, thank you. [LB956]

SENATOR CONRAD: Thank you. [LB956]

SENATOR HADLEY: Will you stay for closing? [LB956]

SENATOR CONRAD: I will try to, yes. [LB956]

SENATOR HADLEY: Okay. Thank you. Could I see a show of hands of how many people who would like to testify on this today? One, two, three, four, five. Okay. We'll start with the first proponent. Welcome. [LB956]

AUBREY MANCUSO: (Exhibit 10) Good afternoon, Senator Hadley, members of the committee. My name is Aubrey Mancuso, A-u-b-r-e-y M-a-n-c-u-s-o, and I'm here on behalf of Voices for Children in Nebraska. As Senator Conrad said in her testimony, it was actually at 8 percent in 2006, Senator Sullivan. And then in 2007, the state earned income tax was increased to 10 percent. And Senator Conrad's bill, LB956, would be the next step in bringing that to 13 percent. The EITC is a policy that incentivizes work and helps offset some of the other taxes that low-income working families pay. It also helps keep families above the poverty line. Almost one in six income tax filers in Nebraska benefits from the state EITC. And about 38,000 people, 19,000 of whom were children were kept above the poverty line by the EITC. We've also attached a fact sheet to your testimony that shows the impact of the EITC in your district and the number and percentage of people who would benefit from Senator Conrad's bill. In order to receive the EITC, families must be working and earning wages. Most of the families claiming the EITC in Nebraska have an adjusted gross income between \$10,000 and \$20,000 a year. For families in this income range, every penny counts and helps them to meet their basic needs. Studies also show that these tax credits have a positive impact on children and families. An increase in family income from these credits is associated with increases in student achievement in school as well as increases in the child's future earnings as an adult. The investments we make in working families through the EITC put children on a solid path to a prosperous future for themselves and for our economy.

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And we would respectfully urge the committee to consider including an EITC increase in any tax legislation advanced this year. And I'm happy to take any questions. [LB956]

SENATOR HADLEY: Are there questions for Ms. Mancuso? Seeing none, thank you so much for coming in to testify. [LB956]

AUBREY MANCUSO: Thank you. [LB956]

SENATOR HADLEY: Could we have the next proponent for LB956? [LB956]

LAUREL MARSH: Good afternoon. My name is Laurel Marsh, spelled L-a-u-r-e-l M-a-r-s-h, and I appear here today in support of LB956 for Community Action of Nebraska. For 50 years, Nebraska's nine community action agencies have worked to foster the skills and cultures which support low-income families and their attainment of economic stability. They've also worked to keep the voices and conditions of those in poverty central to the development of public policy. Collectively, all 93 counties are served. People commonly think of community action in terms of folks who administer Head Start or provide home weatherization, they provide food, housing, and utility assistance. But they also do tax preparation, employment assistance, asset development programs, and personal finance classes. And the latter topics are of great interest to the people with whom we work. In 2012, Nebraska's CAA's collectively served 15,626 separate families who work. And Nebraska being a state with high unemployment for both men and women, what do you work. What do you get if you work? Well, you get paid. That's your basic benefit. You also are in a situation where you might find out about additional jobs in your field that would help you move forward in your field. You might qualify for training from your employer. So there are positive things that come to people who work. And when you go to work everyday, you're children see you go to work everyday and that becomes their normal. Mom works, dad works, I'll go to work. And that becomes your normal. So in Nebraska, the income of many working, single-parent and occasionally two-parent families is at or below the federal poverty level. This occurs despite the fact that people are working full-time jobs. Even with good budgeting and spending habits, they have to be champions at stretching that dollar in order to make ends meet. So people make choices and they make personal economic trade-offs when they plan. When you're choosing to go to work as was stated earlier, you do have to consider can I afford the up-front costs of reliable transportation. Can I afford to potentially put my children in childcare or pay for after school programs? So you're considering the costs of remaining at work at the same time that you are considering the benefits of being at work. And you may fall back on that support that public programs are there to provide for you. The earned income tax credit helps people to receive that extra little boost that they might need to keep them in the work force. And Community Action also urges you to make this part of the discussion, part of the mix, when you're talking about tax policy the rest of this year and to place it on General File. [LB956]

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SENATOR HADLEY: Thank you. Are there questions? Thank you for coming in. [LB956]

LAUREL MARSH: Thank you. [LB956]

SENATOR HADLEY: We appreciate it very much. Next proponent, please. Welcome, Mr. Cunningham. How are you? [LB956]

JIM CUNNINGHAM: (Exhibit 11) Good afternoon, Senator Hadley, members of the committee. My name is Jim Cunningham, J-i-m C-u-n-n-i-n-g-h-a-m. I'm the executive director of the Nebraska Catholic Conference representing the mutual interests and concerns of the archdiocese of Omaha and the dioceses of Lincoln and Grand Island. The Nebraska Catholic Conference supports LB956 because it is a proven, effective, and socially just public policy that assists families often overlooked when fiscal policies are being considered. The earned income tax credit is not welfare, but certainly it enhances welfare policies because of at least four positive impacts. It assists the working poor. It supports the stability of their families by helping to mitigate the poverty in which they otherwise raise their children. It promotes self-sufficiency which remains the linchpin of welfare reform as enacted in 1994, and it reduces long-term welfare dependence. When this Legislature struggled in the early nineties, and had some really stimulating debate about welfare reform, one of the commitments that the state made was to provide supportive mechanisms to ensure that this notion of work or of welfare to work and the notion of self-sufficiency would be meaningful and realistic. This earned income tax credit at the state level is part, I believe, of that commitment to welfare reform in Nebraska. Our catholic conference has been a long time supporter of earned income tax credit. This support is an extension of the support that the United States Conference of Catholic Bishops has consistently carried out at the federal level for the enactment, implementation, and promotion of the federal earned income tax credit. Please support LB956 and send it to the full Legislature. Thank you. [LB956]

SENATOR HADLEY: Are there questions for Mr. Cunningham? Seeing none, thank you, Mr. Cunningham. [LB956]

JIM CUNNINGHAM: Thank you. [LB956]

SENATOR HADLEY: Is there further proponents for LB956? [LB956]

SAM HUPPERT: (Exhibit 12) Chairman Hadley and the members of the Revenue Committee, my name is Sam Huppert, S-a-m H-u-p-p-e-r-t, and I'm here on behalf of the Center for People in Need. On behalf of the Center for People in Need and the population we serve, I'm here today in favor of LB956, a bill which strengthens the state earned income tax credit, one of the more effective tools at moving people out of



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poverty. The Center for People in Need provides services that support low-income and high-needs families and individuals as they lift themselves out of poverty and achieve economy self-sufficiency. Last year, we served over 23,000 separate individuals who made at or below 150 percent of the federal poverty line. Due to wages that have not kept up with the rising cost of living, even Nebraskans who work full time at or near the minimum wage can simply not keep up. We often see this at the Center for People in Need where around half of the people who seek our services are employed but still live at or below the poverty line because of their low wages. By raising the state earned income tax credit to 13 percent of the federal credit, we can assist the 136,000 moderate and low-wage Nebraskans who currently claim this credit. The earned income tax credit is unique in that it provides much needed assistance while incentivizing work, which is why after the federal earned income tax credit was expanded in 1986, President Reagan called it a sweeping victory for fairness and perhaps the biggest antipoverty program in our history. The earned income tax credits are cheap for our state to administer, in many cases having as little as 1 percent administrative costs, meaning that most of the credit will go directly to Nebraskans and then back into the economy as they're spending that money. Additionally, the earned income tax credit goes only to those that work and it encourages people to gain experience on their jobs, which can lead to career growth over time. Because of this, nationwide, and I know Senator Conrad mentioned this earlier, three out of five people who receive the earned income tax credit will use it for less than two years, according to the Center for Budget and Policy Priorities. Even though the earned income tax credit has been successful in moving many people into sustainable work and helps lower-middle class residents stay out of poverty, there are also Nebraskans who desperately rely on it to get by. When we narrowed the results of our 2014 healthcare and general issues survey taken at our annual Thanksgiving food distribution to include only employed residents, the annual household income was still \$1,220 per month with an average age of 41 and an average household size of 3.8 people, well below nearly half the federal poverty line. For these families, this increase would mean making a nearly impossible household budget a little more manageable. Having a small pad for an auto repair or being able to take work off due to a child's illness while not wondering how to make rent without that day's pay. The state earned income tax credit already does a good job in complementing the federal EITC, but in LB956, we have a great opportunity to assist working class Nebraskans even more. And for that reason, we urge the committee to advance LB956. [LB956]

SENATOR HADLEY: Thank you, Mr. Huppert. Any questions? Thank you, sir. Next proponent. [LB956]

JAMES GODDARD: (Exhibit 13) Good afternoon. My name is James Goddard, that's J-a-m-e-s G-o-d-d-a-r-d, and I'm the director of the economic justice in healthcare access programs at Nebraska Appleseed. We're here today to testify in support of LB956. As this committee is aware, the structure of our tax system has a critical impact

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on Nebraskans and all that makes our state the good life. With that in mind, we're very thankful for the thoughtful approach that the Tax Modernization Committee took in examining our tax structure and potential reforms with help from expert stakeholders and everyday Nebraskans. Different proposals are currently being considered as a result of this work, and LB956 is the type of proposal that warrants serious consideration. LB956 would raise the EITC from 10 percent to 13 percent in Nebraska. This change would build on the success that the EITC has had for low-income working families by ensuring workers income goes farther and reducing poverty. Unfortunately despite hard work in our state, there are a lot of workers that are still struggling to make ends meet due to working low-wage jobs. More than about one-fourth of our jobs in Nebraska pay wages that are below the poverty line. An increase in the EITC would help many of these working families to keep more of their earnings and help them move ahead. Moreover, the federal EITC lifts millions of people out of poverty every year across the nation and thousands in our own state. This success can be built upon with the change in LB956. Finally and lastly, I'd like to say we recognize that careful decisions have to be made by this committee and this body about changes to our tax system that support our revenue base. We have to ensure that we invest in our infrastructure and important programs in our state. As this commission considers what changes to make to our system, LB956 should be strongly considered because it benefits low-income families with moderate effects on our overall revenue. With that, I would urge the committee to support the bill. [LB956]

SENATOR HADLEY: Are there questions for Mr. Goddard? Seeing none, thank you. [LB956]

JAMES GODDARD: Thank you. [LB956]

SENATOR HADLEY: Next proponent. [LB956]

SARAH ANN KOTCHIAN: (Exhibit 14) Good afternoon, Chairman Hadley, members of the Revenue Committee. My name is Sarah Ann Kotchian, S-a-r-a-h A-n-n K-o-t-c-h-i-a-n, and I am here today in support of LB956 on behalf of the Holland Children's Movement, a nonpartisan not-for-profit organization committed to improving public policies essential to providing opportunities for success for children and families living in poverty. We commend Senator Conrad for her continued attention and support to improving the state EITC. While we know that one of the most immediate benefits of the EITC is to lift families out of poverty, the potential impacts of the program on future generations should also be carefully considered, especially as we remain acutely aware that the statewide rate of child poverty has risen over the last decade from 14 percent to 18 percent. And as the at-risk population of children zero to five years of age has been increasing more rapidly in the rural areas of the state, it is worth noting that the EITC is collected equally in urban and rural areas. Today, I wanted to bring you information that could help add to this conversation, and only yesterday I came across an April 2013

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report by the Center on Budget and Policy Priorities. This report provides recent research findings that the EITC promotes work and encourages children's success at school. It also provides research that indicates for children of EITC recipients that work, income, and health benefits extend into adulthood. I have provided copies of this report with my letter for each of you. Highlights from the report include the following. The most significant gains in employment attributable to the EITC occurred among mothers with young children and mothers with low education. Each \$1,000 increase in annual income for two to five years improves the school performance of children on a variety of measures, including test scores. Similarly, a credit that's worth about \$3,000 during a child's early years may boost his or her achievement by the equivalent of about two extra months of schooling. For children in low-income families, a \$3,000 increase in family income between a child's prenatal year and fifth birthday is associated with an average 17 percent increase in annual earnings and an additional 135 hours of work when the children become adults. The overall takeaway is that supplementing the earnings of parents helps raise families out of poverty and causes improvements in young children's long-term outcomes in school performance. We would thank you for your thoughtful consideration of this effort and urge you to advance this bill to General File. [LB956]

SENATOR HADLEY: Thank you, Ms. Kotchian. Questions? Seeing none, thank you. [LB956]

SARAH ANN KOTCHIAN: Thank you. [LB956]

SENATOR HADLEY: Any further proponents? [LB956]

BRUCE BOHRER: Well, good afternoon, Chairman Hadley, members of the committee. Bruce Bohrer, registered lobbyist for the Lincoln Chamber of Commerce. For the record, my name is spelled...last name is B-o-h-r-e-r, appearing this afternoon in support of the earned income tax credit, LB956. I'm appearing on behalf of the Lincoln Chamber and also authorized to support this bill on behalf of the Greater Omaha Chamber of Commerce and the State Chamber of Commerce and Industry. It's already been covered pretty well. I think it's a proven, effective, and targeted way to assist low-income families and promote work force participation. We certainly support that as part of a larger package. And I think speaking on behalf of the Lincoln Chamber at least, we were there for the original earned income tax credit when it was enacted. We supported it. And then the change that was soon thereafter as part of the larger package that Senator Conrad referred to. And so we're back here supporting this as a reasonable measure, and something that we think we would support that you advance on as part of a package. I'd be happy to answer any questions you might have. [LB956]

SENATOR HADLEY: Thank you, Mr. Bohrer. Are there questions? Seeing none, thank you, Mr. Bohrer. [LB956]

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BRUCE BOHRER: Thank you. [LB956]

SENATOR HADLEY: Any other proponents? (Exhibits 15, 16, and 17) I'd like to read into the record that we've had letters from Tessa Foreman for Nebraskans for Peace in support of LB956, Patrick Bourne, former state senator of District 8, and Terry Werner, National Association of Social Workers. Are there any testifiers in opposition of LB956? Any in the neutral capacity? [LB956]

DYLAN GRUNDMAN: (Exhibits 18 and 19) Good afternoon, Chairman Hadley and members of the Revenue Committee. My name is Dylan Grundman, D-y-l-a-n G-r-u-n-d-m-a-n. I am the fiscal policy analyst at OpenSky Policy Institute. Renee Fry, our executive director was hoping to be here but could not be. She's in another hearing right now. We are here today to testify in neutral and share some data on LB956. We do support the earned income tax credit as it provides highly-targeted tax cuts for low-income working families, as you've heard from other testifiers today. But given the limited funds available and the fact that property taxes are a more pressing issues than income taxes right now, we are neutral regarding the EIT expansion in LB956. As you can see in the first graph that's being handed out, the existing EITC reduces the overall regressivity of the tax code and the expansion in LB956 would make a further modest dent in that regressivity. Nebraska's lowest income families pay the highest percentage of their income in taxes, and LB956 would reduce that percentage slightly. The second graph being handed out shows how the \$9.6 million in tax reductions in LB956 would be divided by income group. Eighty-five percent of the increased credit would go to the 40 percent of Nebraskans with incomes less than \$37,000. The third graph at the bottom shows how much the additional tax credit would be worth for families of different sizes and income levels. A married couple with three children and a \$15,000 wage income would benefit the most, receiving about \$184 in additional EITC. Families with fewer children or higher incomes would receive less. For example, a two-parent, one-child family in that same income range would receive about a \$99 credit increase under the expansion, and a couple with no children would receive about an \$11 increase. No family making more than about \$55,000 would qualify. Finally, one idea the committee may wish to consider is combining the EIT expansion in LB956 with the middle-class tax cut in Senator Davis' LB1056 that was heard last week. The fiscal note for LB1056 showed about a \$37.8 million revenue gain, and some interest was expressed at the hearing regarding changes that could make it revenue neutral. Combining LB956 and LB1056 would bring the fiscal note closer to revenue neutrality while also broadening the range of beneficiaries. As LB1056 is currently written would primarily benefit people with incomes in the \$37,000 to \$168,000 range. Thank you for your time and I'd be happy to answer any questions. [LB956]

SENATOR HADLEY: Are there any questions? Seeing none, thank you. [LB956]

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DYLAN GRUNDMAN: Thank you. [LB956]

SENATOR HADLEY: We appreciate you coming in. Anyone else in the neutral capacity? I see Senator Conrad has left, so I assume she is waiving closing. With that, I will close LB956 and close the hearings for the day. Thank you. [LB956]