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Revenue Committee
March 09, 2017

[LB570 LB572 LB576 LB599]

The Committee on Revenue met at 1:30 p.m. on Thursday, March 9, 2017, in Room 1524 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LB570, LB572, LB576, and LB599. Senators present: Jim Smith, Chairperson; Curt Friesen, Vice Chairperson; Lydia Brasch; Mike Groene; Burke Harr; Brett Lindstrom; and Paul Schumacher. Senators absent: Tyson Larson.

SENATOR SMITH: Welcome to the Revenue Committee public hearing. My name is Jim Smith. I represent the 14th Legislative District in Sarpy County, and I serve as the Chair of the committee. The committee will take up the bills in the order posted on the outside of the room. Our hearing today is your public part of the legislative process. This is your opportunity to express your position on the proposed legislation before us today. To better facilitate today's proceeding, I ask that you abide by the following procedures. If you would please, turn off your cell phones and other electronic devices so as not to disturb or interfere with the person testifying before us today. As we begin hearing testimony, if you're planning to come to the chair and testify, if you would move to the front of the room so you're ready to do so that would make things move a bit better. The order of testimony is going to be the introducer of the bill, proponents of the bill, opponents of the bill, those testifying in a neutral capacity, and then we will end up with closing remarks from the introducer of the bill. If you will be testifying, please complete the green form and hand that to the committee clerk when you come up to testify. If you have written testimony or exhibits for the committee and you would like to have those distributed, please present that to the page when you come forward to testify and we will get that into everyone's hands. We will need 11 copies for staff and for committee members. If you need assistance making those copies, let us know. We can help you with that as well. When you begin to testify, we're going to need you to both state and spell your name so we can get it accurately into the record. We are going to use the light system today and right now, the way I'm seeing the group that's here today, we're probably going to do a five minute testimony. The green light will be on for four minutes. It will then turn to an amber color for one minute and during that last minute we would ask that you wrap up and conclude your remarks. If you would like your position to be known, but do not wish to testify, please sign a white form at the back of the room and it will be included in the official record. The microphone on the table is not to amplify your voice. It's to capture your remarks for the transcribers so it can be placed correctly into the record, so you will need to speak loudly enough for everyone to hear. Let me introduce you to our staff with us today. To my immediate right is legal counsel, Mary Jane Egr Edson; to my immediate left is research analyst, Kay Bergquist, and to my left at the end of the table is committee clerk, Krissa Delka. I'm going to allow those members that are here with us today to introduce themselves. I do understand Senator Larson will not be with us today. Senator Groene has a bill in another committee and he will be joining us here shortly.

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

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

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

SENATOR SMITH: And we will have Senator Brasch and Senator Harr joining us in a bit. We have pages with us today to assist us and to assist you. Our pages are Alexi Richmond from Milwaukee, Wisconsin, and Sarah Wearne from Topeka, Kansas. And we appreciate them and appreciate their help. Senators may come and go during the committee hearing. They may have obligations in other committees, so please bear with us on that. And with that, we are going to get started on our hearing, with our first hearing of the day is LB570, Senator Friesen. It relates to providing a property tax exemption for all tangible personal property. Welcome.

SENATOR FRIESEN: Thank you, Chairman Smith and members of the Revenue Committee. My name is Curt Friesen, C-u-r-t F-r-i-e-s-e-n. I represent District 34 and I'm here to present LB570. Basically, LB570 exempts all tangible personal property from property tax. Legislative Fiscal Office estimates that as a result of provisions of LB570, an additional General Fund expenditure of \$60 million for TEEOSA aid would be required in 2021-22. And also because all personal property would be exempt under the provision, LB570 would realize a reduction in General Fund expenditures of \$17 million in 2021. When you look at the personal property tax, you know, when I...I kind of look at it from the agricultural side, but for instance, if you want to convert a gravity-irrigated field and you want to be more efficient in irrigation and so you purchase a pivot and you spend \$100,000 and so. You put that \$100,000 pivot on to the land that is already taxed fairly high and you pay a personal property tax for the next seven years while that depreciates out. And so you're trying to do more efficient business decisions and yet you pay more personal property tax. The same goes for business. If they want to upgrade machines or equipment or expand their operation and they have to buy equipment to put it into that factory and they have to pay a personal property tax then over the next seven years, and what they're doing is trying to expand and grow their business, and instead what we do is penalize them with a personal property tax for the next seven years while that depreciates out. And it depends on, you know, I think personal computers those types of things are depreciated quicker. They are probably a five year. There are some three year for computers. They go obsolete quicker, but most of the ag equipment is seven years. I don't think there's any that goes longer than seven years on the personal property. This affects ag and commercial and railroad, obviously, is the biggest components of this. And basically in 2016, we were talking about \$60,791,000 in ag and \$112,106,000 in commercial and \$12 million basically on railroad, and this basically would be

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the property taxes collected. When you talk about the property values, you know, in commercial you're talking about 31...basically \$31,171,000,000 of equipment that's out there. Ag, they're a smaller percentage. You know, it makes up very little when you're talking the railroads. In the overall picture it's around 2 percent; commercial and industrial is 2.5 percent; agriculture would be about 1.95 percent of the total property tax picture collected. So this here, I think it's good for the business community in helping them to expand business, maybe they can add employees. You could look at it as economic development in a way. It lowers their cost of making an expansion. In ag it helps us when we want to convert and buy some of the latest technology that's out there to get...to be more efficient. It doesn't penalize us with that property tax...personal property tax bill. So with that, I would like to answer any questions you might have. [LB570]

SENATOR SMITH: Thank you, Senator Friesen for your opening on LB570. Do we have questions from the committee? Senator Schumacher. [LB570]

SENATOR SCHUMACHER: Thank you, Chairman Smith, and thank you, Senator Friesen. Now, do you know, is personal property like the Keystone pipeline, the gas pipelines, the telephone lines, all those utility kind of things, are they considered to be personal property or are they considered to be real estate? [LB570]

SENATOR FRIESEN: I do believe most of that...some of that would be personal property. It would be like the railroads. The railroads are...it's on their rolling stock. It's something like that. I mean, I'm not familiar with that. Maybe somebody that testifies later could clear it up. Pipelines also pay a personal property tax, I believe, on the equipment and things like that. So it does...you know, it covers industry wide. Personal property taxes levied on lots of...I don't know of many exemptions out there, put it that way. [LB570]

SENATOR SCHUMACHER: I think a year or two ago we exempted the first \$10,000 per district of personal property that anybody had. Do you know what that added up to, by any chance? [LB570]

SENATOR FRIESEN: I think we were...we put \$20 million...did we put \$20 million if that's what it cost statewide, because it was per taxing entities so you'd say it was per county. Now like my farm, if I would operate it in multiple counties I could, and had enough value in each county, I could collect in each county on that. [LB570]

SENATOR SCHUMACHER: I think it was even where we had to do it per taxing districts so it went from like 93 counties to 6,000-something taxing districts. [LB570]

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SENATOR FRIESEN: Well, I...but your taxing district for me would be countywide. There's the ones that levy the tax at the county level. I think it was per county. That's my... [LB570]

SENATOR SCHUMACHER: We'll have to check on that, but... [LB570]

SENATOR FRIESEN: Yeah, that's my understanding that it was per county because when I was looking at it I was trying to decide how many businesses there might be that would operate in a lot of counties. Now, obviously, railroads would be operating in numerous counties, so I don't...but I don't know if they could all take advantage of it. I don't know how they centralize their equipment, but for farmers if you are on a county line, for instance, you put a pivot in each county, I think you would collect in each county. [LB570]

SENATOR SCHUMACHER: Okay. Thank you. [LB570]

SENATOR SMITH: I see no additional questions, thank you, Senator Friesen, for your opening on LB570. Do we have anyone wishing to testify in support, proponents of LB570? Welcome, Mr. Young. [LB570]

JOSEPH YOUNG: Good afternoon, Senator Smith and members of the committee. My name is Joseph Young. For the record, that's J-o-s-e-p-h Y-o-u-n-g. I'm the executive vice president of the Nebraska Chamber of Commerce and Industry here to testify in support of LB570 on behalf of our organization and the Nebraska Bankers Association, as well as the Nebraska Federation of Independent Businesses. You know, I considered not coming today to testify because since this bill has a zero fiscal note for the state, it would just get on consent calendar and we would move on and everyone would be happy, but I thought maybe I'd come down here anyway. (Laughter) We, of course, understand the state's fiscal situation, but we also think that as we're having these high level tax policy discussions that we should leave the personal property taxes in Nebraska on the table and at least discuss them. As Senator Friesen alluded to, this is something that both the business community and farmers and ranchers can get behind as good tax policy. In fact, there's been a lot of movement around the country in the last five or ten years with regards to the personal property taxes. States such as Ohio, Maine, Vermont, Florida, Arizona, and a slough of others have made reductions...and reductions or eliminations of their personal property taxes in general. Of course, we at the Chamber think that we need to stay competitive with those states as we compete with all of them and we just think it's a good idea as we talk about taxes, I said, to keep these on the table, so we're in support of LB570. I'd be willing to take any questions if you have them. [LB570]

SENATOR SMITH: Thank you, Mr. Young. I see no questions for you. Thank you. [LB570]

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JOSEPH YOUNG: Thank you. [LB570]

SENATOR SMITH: Next supporter of LB570. Welcome. [LB570]

NICOLE FOX: (Exhibit 1) Thank you. Good afternoon. My name is Nicole Fox and I am director of Government Relations for the Platte Institute. I'd like to thank Senator Friesen for introducing LB570 and I'm here today to testify in support of this bill. Many people are unaware that the tax on tangible personal property even exists because it applies mainly to business equipment. But when it comes to making investments in Nebraska's economic growth, this tax is one of the most harmful and distortionary. Of all the options in the tax policy tool kit, the personal property tax is one that creates a lot of economic drag, much like an income tax. This is because both of these taxes impose higher costs on the same types of things. Personal property tax impacts investments that produce other goods and services. When the cost of acquiring these goods is higher, it can delay investments that grow enterprises, raise wages, and create wealth. Regionally, many Midwestern states are moving away from the collection of tangible personal property tax. Michigan and Indiana are two states that have recently taken major action to phase out or reduce personal property tax, while Iowa, South Dakota, North Dakota, Illinois, Ohio, and Minnesota exempt all or nearly all personal property. Though Nebraska's existing personal property tax credit mitigates this cost somewhat, because the personal property tax is levied at the same high tax rates for real property, Nebraskans still pay substantially more for making these capital investments than taxpayers in most states that also collect personal property tax. Beyond the immediate cost of the tax, the taxpayers face considerable compliance costs from actively identifying the property to be taxed and their attributes. The goal in collecting tax revenue should be to provide needed services and to advance policies producing benefits for the public that exceed the costs. But the uniquely harmful characteristics of the tangible personal property tax impose economic costs and barriers that may outweigh any benefits Nebraskans receive from collecting this tax. Ernie Goss has written that in Nebraska capital per worker is \$78,000, compared to an average of \$105,000 in neighboring states and \$122,000 nationwide. Our goal with tax reform should be to raise our needed revenue in the least economically harmful manner. This is why reducing Nebraska's reliance on tangible personal property tax is one of the key recommendations in the Tax Foundation's report, "A Twenty-First Century Tax Code for Nebraska." The Platte Institute supports the goal of LB570 to fully exempt tangible personal property from tax, but we also understand that an immediate repeal may not be practical for local political subdivisions. Fortunately, there are many good options to accommodate the need for this transition. The Legislature could gradually raise the state's exemption of tangible personal property so that fewer people are impacted by the tax or have to file a return. One challenge for the Legislature with that approach is that the current personal property tax exemption is funded through a credit. If a phase-out were done gradually over ten to 15 years, it may be possible to avoid increasing costs to the state from increasing this credit. Another option for the state to repeal personal property tax is only on new equipment, which has been done in a

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few states. That would essentially freeze the personal property tax base. Because the items taxed are depreciable, the revenue losses would begin in the year designated by legislation, but the impact on subdivisions would also be gradual. A third approach would be to simply allow political subdivisions to make personal property tax a local option tax that they can repeal locally. For example, if the state enacted an expansion of the state sales tax base as part of tax reform, some cities may decide they would rather rely on local option sales tax generated by taxing services instead of having a tax on business equipment that is being used for investments in their area. This wouldn't necessarily end personal property tax, or the compliance costs associated with it since many subdivisions do not collect sales tax, but it would reduce how many local governments rely on the tax, and the financial cost to taxpayers and the work force. The Legislature has tried with limited success to do something meaningful on real property tax reform that would be noticed and appreciated by the public. But the Legislature has a much greater ability to address the personal property tax burden. Eliminating personal property tax might go unnoticed by those who don't pay it, but the economic impact on the growth of businesses in Nebraska would be far more lasting than just another property tax credit. And with that, I conclude my testimony and happy to take any questions. [LB570]

SENATOR SMITH: Thank you, Ms. Fox. I see no questions from the committee. Thank you. [LB570]

NICOLE FOX: All right. Thank you. [LB570]

SENATOR SMITH: Next proponent of LB570. Welcome. [LB570]

DOUGLAS NIENHUESER: (Exhibit 2) Senator Smith and members of the Revenue Committee, my name is Doug Nienhueser, D-o-u-g N-i-e-n-h-u-e-s-e-r, and I'm here representing Nebraska Fair. The sheet I'm handing out to you, I'm sure you guys are all well-aware of it. It's just kind of an illustration though that reducing the personal property taxes goes...it's just another piece of pie of fixing their property tax problem. And we look down here under Item I, there on the top, right now \$2 billion...\$280 million is going to fund schools and that is in violation of our state constitution and it's a...that would be such an economic boost to Nebraska to put that much money back into the system and would create a lot more income and sales and a lot of other taxes as that dollar gets turned over several times throughout its life. And most of it would end up being paid in tax dollars and this removing personal property taxes is just another piece of the pie. And I want to thank Senator Friesen for bringing that forward and I just wanted to get this in front of you guys. It's just another illustration of why we need to work so hard to fix property taxes. Thank you. [LB570]

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SENATOR SMITH: Thank you, Mr. Nienhueser, for your testimony. I don't see any questions for you. Thank you... [LB570]

DOUGLAS NIENHUESER: Very good. [LB570]

SENATOR SMITH: ...for coming in and testifying in support. Next proponent of LB570. Welcome. [LB570]

JESSIE HERRMANN: Thank you. Thank you, Chairman Smith, members of the Revenue Committee. My name is Jessie Herrmann, J-e-s-s-i-e H-e-r-r-m-a-n-n. I'm here representing the Nebraska Agriculture Leaders Working Group testifying in support of LB570, which would exempt all tangible personal property from property tax starting in 2019. The Agriculture Leaders Working Group is made up of the elected leaders of the Nebraska Cattlemen, Nebraska Corn Growers, Nebraska Farm Bureau, Nebraska Pork Producers, Nebraska Soybean Growers, and the Nebraska State Dairy Association, and we should start by thanking Senator Friesen for his leadership on property taxes. Personal property taxes account for more than \$200 million and while agriculture makes up about 3 percent of the state's population, we pay more than 30 percent of its total property taxes. Farmers and ranchers, like other businesses, purchase new equipment to increase efficiency, and in many cases preserve resources. Seven states have actually eliminated the tax on tangible personal property because of the burden such a tax places on businesses. Understanding budget constraints, the Ag Leaders Working Group is committed to achieving tax relief in a revenue neutral way. We're not trying to encourage new spending, nor are we trying to cut funding for state priorities. We are truly committed to rebalancing the way we fund our priorities. We ask the committee to support LB570 and thank you for your time. Happy to answer any questions. [LB570]

SENATOR SMITH: Thank you, Ms. Herrmann, for your testimony. Senator Schumacher. [LB570]

SENATOR SCHUMACHER: Thank you, Chairman Smith, and thank you, Ms. Herrmann, for your testimony. So if this is rebalancing and we get rid of the personal property tax, who gets the other end of the teeter totter? [LB570]

JESSIE HERRMANN: Are you saying who has to end up paying? [LB570]

SENATOR SCHUMACHER: Yeah. [LB570]

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JESSIE HERRMANN: Well, I would say first off that it would rebalance because that other end of the teeter-totter has been shifted to agriculture for a very long time so we're trying to rebalance. [LB570]

SENATOR SCHUMACHER: Who gets a bigger bill? [LB570]

JESSIE HERRMANN: Probably those who have been getting a lesser bill. [LB570]

SENATOR SCHUMACHER: And that is who? [LB570]

JESSIE HERRMANN: I think there's a lot of folks that have been. I can't name a specific group, but. [LB570]

SENATOR SCHUMACHER: Whose taxes have gone down? Whose taxes have gone down? [LB570]

JESSIE HERRMANN: I don't...none of our members, that's for sure. [LB570]

SENATOR SCHUMACHER: Thank you. [LB570]

SENATOR SMITH: Thank you, Ms. Herrmann, for your testimony. [LB570]

JESSIE HERRMANN: Thank you. [LB570]

SENATOR SMITH: (Exhibits 3-4) Next proponent of LB570. We do have letters for the record in support of LB570 from Joe Neuhaus representing LIBA, and from Dan Wesely representing Nebraska Corn Growers. We now move to opponents, those wishing to testify in opposition to LB570. Welcome, Mr. Dix. [LB570]

LARRY DIX: Good afternoon, Senator Smith, members of the committee. My name is Larry Dix, L-a-r-r-y D-i-x, executive director of the Nebraska Association of County Officials, appearing today in opposition to LB570. Certainly, we want to thank Senator Friesen for bringing this because it always makes us sort of think about this whole tax policy debate that we're going through. And even when we had the discussion within our organization, I think for us it comes back to once again a loss of the tax base. We're going to see that. I think that is adequately represented in the fiscal note. And, you know, it's always...I think we see a lot of times people come up and say, well, you know this is a tax I don't have to pay, I don't have to

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pay, I don't have to pay. But when we look at it from county government, just from putting that perspective on, as long as we have to provide the same set of services, this really is going to be a tax shift and it's going to shift to real estate. And whoever pays the highest real estate burden is going to see the biggest share of this shift, in our opinion. From a county government perspective, we don't have anywhere else to shift it to, and so we think...we think it's going to shift. Now at the end of the day, it's a tax policy decision, tax policy discussion of the Legislature and I think that's something that if you want to have this in the mix, then it is a discussion there. But once again, we would oppose it because we think it reduces our base, our pool of resources of which we could levy against. And, of course, when that happens, then our tax rate, county tax rate is probably going to increase and it truly is going to shift to real estate. So, that's the reason for our opposition. Senator Schumacher you were asking a little bit of a question about the \$10,000 exemption and I think it...I think what we have found when people are filling out their personal property statements, that is per tax district. And so if you were to have personal property of whatever...whatever nature in the county, but it would happen to fall within multiple tax districts I believe you get that exemption in each taxing district. So with that, I'd be happy to answer any questions anybody would have. [LB570]

SENATOR SMITH: Senator Schumacher. [LB570]

SENATOR SCHUMACHER: Thank you, Chairman Smith, and thank you, Mr. Dix, for your testimony. Now, there's a whole lot more tax districts in the state than there are counties. Is that correct? [LB570]

LARRY DIX: Correct. [LB570]

SENATOR SCHUMACHER: And so you're in a new, different tax district if even you're fire district is changed, correct? [LB570]

LARRY DIX: Correct. [LB570]

SENATOR SCHUMACHER: One side of the road may have all the other taxing entities the same, but if you've got a different fire district, you're in a different district. [LB570]

LARRY DIX: You're in a different taxing district. [LB570]

SENATOR SCHUMACHER: And when that...and this is a little bit for educational purposes, the next question. Last...when we tried that personal property tax exemption, it originally started out

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per county. Do...are you familiar with the rationale of why it had to be changed to per district?
[LB570]

LARRY DIX: I'm not...I wouldn't say I'm crystal clear on it, but I believe so that it may have had to do with centrally assessed properties as they would flow through the state. I think that's some of what started us down this path of a discussion because we do have some centrally assessed property where it virtually goes border to border across our state. And so that's where they said it couldn't be contained within a county boundary. And then once we started to investigate that in Senator Gloor's bill, I think then there was a clarification and probably even some discussion on the floor of the Legislature that if someone would have personal property and it happened to fall across a county line or across a school district line, then that exemption would be per personal property filing. So it would, in essence, be per tax district. [LB570]

SENATOR SCHUMACHER: And the pipeline, for example, I think we talk about the TransCanada pipeline again, is that taxed as personal property or real estate? [LB570]

LARRY DIX: I'm not...I don't...I'm going to have to find the answer on the pipeline itself. I do know the pumping stations, as they locate pumping stations from county to county and site to site, the pumping stations, I believe, are personal property. [LB570]

SENATOR SCHUMACHER: And the only other mechanism for taxing right now that we give to counties is real estate tax. [LB570]

LARRY DIX: Real estate and there is some motor vehicle, certainly motor vehicle. [LB570]

SENATOR SCHUMACHER: Okay. Thank you. [LB570]

SENATOR SMITH: Thank you, Mr. Dix, for your testimony. Next opponent of LB570. Welcome. [LB570]

CHRISTY ABRAHAM: Good afternoon, Chairman Smith and members of the Revenue Committee. My name is Christy Abraham, Abraham is spelled A-b-r-a-h-a-m. I'm here representing the League of Nebraska Municipalities and we just want to echo some of the concerns that Mr. Dix just raised. This bill would have a detrimental impact on municipalities and our ability to provide critical services to our communities. As you read in the fiscal note, I think the impact to Omaha is going to be over \$10 million and the impact to Lincoln of about \$2.5 million. And it just goes on from there. Each municipality in the state would be impacted in some way. So thank you for your time today. I'm happy to answer any questions. [LB570]

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SENATOR SMITH: Thank you, Ms. Abraham. I see no questions. Thank you for your testimony. [LB570]

CHRISTY ABRAHAM: Thank you. [LB570]

SENATOR SMITH: Next opponent of LB570. Welcome. [LB570]

JACK CHELOHA: Good afternoon, Chairman Smith and members of the Revenue Committee. My name is Jack Cheloha. That's...first name is J-a-c-k, the last name is spelled C-h-e-l-o-h-a. I'm the registered lobbyist for the city of Omaha. I want to testify in opposition to LB570 this afternoon. Essentially from our fiscal note prepared we would lose, based on this if we did not tax tangible personal property after 2019, roughly \$10 million a year. And so with that we would have to shift the revenue source to the real property or some other source and for those reasons we would be opposed to the bill. Thank you. [LB570]

SENATOR SMITH: Thank you, Mr. Cheloha. I see no questions, thank you. Next opponent. We do have letters for the record in opposition to LB570. Oh, I'm sorry, opposition? I'm sorry. Welcome, Ms. Fry. [LB570]

RENEE FRY: (Exhibit 5) Thank you. My apologies. Good afternoon, Chairman Smith and members of the committee. My name is Renee Fry, R-e-n-e-e F-r-y, and I'm the executive director of OpenSky Policy Institute. Our testimony today is similar to our testimony on bills that would reduce the taxable valuable of agricultural land in the sense that LB570 will significantly reduce the tax base for schools, counties, cities, community colleges, and other local governments. This will essentially shift who pays property taxes, in this case from personal property taxpayers to real property taxpayers, and likely lead to cuts to services or higher property taxes for many Nebraskans. Like the agricultural land valuation bills, LB570 is in part a tax-shift bill, and the property tax reductions will largely depend on whether the lost property tax revenue can be shifted to real property taxpayers in the area and whether there is room under the levy to increase the real property tax levy to make up the difference. LB570 will also result in a loss of revenue for local governments. If LB570 had been in place in FY '17, the tax base would have been narrowed by \$13.9 billion, resulting in a \$221 million shortfall for schools and other localities. That would have included shortfalls of \$136 million for K-12 schools; \$37 million for counties; \$29 million for cities and miscellaneous districts; \$13 million for community colleges; \$5 million for NRDs; and \$2 million for ESUs. We estimate that the current law would call for over \$64 million more in state aid to schools, leaving K-12 schools with a shortfall of about \$71 million. There is some ambiguity in how the bill will be interpreted. It might be that personal property would still be considered a resource in the formula and state aid would not increase even though districts could no longer tax on personal property. Moreover, given that the current

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budget proposal is calling for a \$47 million reduction in FY '18 alone, it's unlikely that this increase in state aid would be funded regardless. However, even if the additional state aid is funded, it would not be triggered until the second year after valuations were decreased, and it would only benefit schools that receive equalization aid. Cities, counties, community colleges, and other local entities could not be made whole without raising property tax levies. If implemented in FY '17, and the state had not funded an increase in state aid, levies across the state would have had to increase an average of 10.3 cents. One county would have been pushed over its levy limit, losing \$2.3 million in revenue and at least 52 school districts would have been unable to make themselves whole, losing approximately \$44 million without overriding their levy limits. If the state had funded the \$64 million increase in state aid, total property tax levy rates across the state would have had to increase on average 7.3 cents to avoid service cuts. Along with the one county, 22 school districts would have been unable to recoup their lost revenue losing almost \$4 million without overriding their levy limits. And with that, thank you for your time and I'd be happy to answer questions. [LB570]

SENATOR SMITH: Thank you, Ms. Fry. I see no questions. Thank you for your testimony. [LB570]

RENEE FRY: Thank you. [LB570]

SENATOR SMITH: (Exhibits 6-7) Remaining opponents to LB570. We do have letters for the record in opposition: Lynn Rex, representing the League of Nebraska Municipalities; and Brandon Kauffman, representing the city of Lincoln. Both sent letters in, in opposition to LB570. Anyone wishing to testify in a neutral capacity on LB570, neutral? Seeing none, Senator Friesen is invited to close on LB570. [LB570]

SENATOR FRIESEN: Thank you, Chairman Smith. You know, a couple of points, I guess, it would be probably a good move in order to phase it in, just do it on new equipment and it wouldn't interrupt any of the budgets that look forward. It would phase it in slowly and it would surely lower the fiscal note on this bill, and it would be probably a responsible thing to do. In response to Senator Schumacher, I guess, you know, yes, there will be a shift to someone and it depends on where we decide to make that shift happen, but it would shift on to other property owners currently. I mean, whoever they may be, when you eliminate this property tax, those entities that levy property taxes would have to raise their levies to make up the difference so it would still fall back on property owners that are currently paying taxes and are complaining about the high rates, I agree. But again the shift that has happened over the past eight to ten years, there's...you can say there's a \$900 million shift that happened slowly and now the chickens have come home to roost, so to speak, when our economy can't afford to pay that anymore. And so we have been willing payers up unto this point and now with commodity prices

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down, we no longer can, so the answer is to raise commodity prices. If we can do that, we'll all be good again. So I...no other, no other comments. Thank you. [LB570]

SENATOR SMITH: Remaining questions for Senator Friesen? I see none, thank you, Senator Friesen, for your closing on LB570. We now move to LB572, which is again Senator Friesen's to introduce, and it relates to providing termination dates for the Property Tax Credit Act and the Tax Equity and Educational Opportunities Support Act in changing application deadlines under the Nebraska Advantage Act. You're welcome to open. [LB570]

SENATOR FRIESEN: Thank you, Chairman Smith and members of the committee. My name is Curt Friesen, C-u-r-t F-r-i-e-s-e-n, representing District 34. I'm here today to present LB572. And just a heads up for everybody, you know, I don't expect this bill to travel very far from this room, but it again it kind of highlights the things that we talk about when we have skin on the game, so to speak, and everybody here takes a hit. And LB572 basically terminates the Property Tax Credit Act and the Tax Equity and Educational Opportunities Support Act and it changes the deadline for submitting applications to the Nebraska Advantage Act. And so the Property Tax Credit Act based on the current level of funding for the act...the Property Tax Credit Act, the reduction in expenditures from the Property Tax Credit Cash Fund would be \$224 million. So it would increase the General Fund revenues. The Nebraska Advantage Act, the Department of Revenue indicates that the change in sunset dates will not have a General Fund impact because any of those still qualified we're still going to be paying out. All it will do is stop any further applications from coming in so there's really no General Fund impact. But looking ahead, obviously, we just could look back and, you know, they indicate maybe there would be a rush of applications to get them in quick, but from what I've heard from previous testimony on bills, when you have a two- to three-year applications rate process, it's hard to rush an application when you get a bunch of applications in there. So I do think it would probably stop some applications from happening so there is a...looking forward there would be a substantial revenue increase to the state if we were willing to do that. And, obviously, when you look at the TEEOSA funding, now we're looking about \$1.1 billion in TEEOSA funding down the road. So you add all of these together, you could easily get up to a total of about \$1.5 (billion), \$1.8 (billion), \$1.9 billion, and I probably do as good a job as the Fiscal Office in coming out with these estimates. I scratched with the pen here a little bit and I think that satisfies Senator Harr's fiscal note, so. You know, if we would take this \$1.8 billion and then apply it to property tax relief from K-12 funding, we could almost get to the point where down the road we could look at eliminating property taxes. This bill, I guess, was more to drive a point to how much we spend on different things and, you know, obviously, the TEEOSA formula when everybody looks at that, we all say we want to fix it. We talk about it. We manipulate it at times, but we never do anything meaningful with it other than to try and limit our exposure as a state to how much it disburses. And so we make it fit our budget and in the end now, the TEEOSA formula is...all the money is funneled to a few schools and the majority of them receive none. It needs a lot of work

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and so, therefore, if we would just sunset it, I think it would probably motivate some people to come up with a fix. So with that, I would be open to any questions. [LB572]

SENATOR SMITH: Thank you, Senator Friesen, for your opening on LB572. I see no questions from the committee. Those wishing to testify in support of LB572. Proponents of LB572. Welcome, Mr. Mines. [LB572]

MICK MINES: Mr. Chairman and members of the committee, my name is Mick, M-i-c-k, Mines, M-i-n-e-s. I'm a registered lobbyist for the Nebraska Corn Growers Association and I'm here today representing the Nebraska Agriculture Leaders Working Group in support of LB572. Never let it be said that Senator Friesen thinks small. This is a big proposal and that's why we're supporting it. Our Working Group is made up of elected leaders from the Nebraska Cattlemen, Nebraska Corn Growers, Nebraska Farm Bureau, Nebraska Pork Producers, Nebraska Soybean Growers, and the Nebraska Dairy Association. You understand...you well understand that LB572 would sunset the Nebraska Advantage Act and the Tax Equity and Educational Opportunities Support Act and the Property Tax Credit Act. And again, thank you, again, Senator Friesen, for introducing this bold idea. Last year, the Department of Revenue indicated Nebraska spends up to \$320,000 per job under the Nebraska Advantage Act and the act is not in many cases acceptable...accessible to production agriculture or ag processing. Agriculture represents 25 percent of Nebraska's economy and ag stakeholders support economic incentives, but would appreciate the Legislature reviewing the efficiencies and scope of the Nebraska Advantage Act. Property Tax Credit Fund provides \$224 million in relief to the individuals and businesses paying \$3.8 billion in property taxes and the Property Tax Credit Fund is certainly not perfect or something we consider tax reform. But currently, it's the only means of providing relief to property taxpayers who are shouldering nearly 50 percent of the burden of paying state's priorities. The fund functions well and it provides relief to all property owners, not just agriculture. Providing relief to all types of property owners is a primary principle of the Ag Leaders Working Group and we ask the committee and the Legislature to ensure this distribution is maintained whether or not the Property Tax Credit Fund is repurposed. Finally, it's important to remind the body and this committee that more than 170 schools in Nebraska receive no equalization aid under the current school funding formula. More equity in the formula can be achieved in a variety of ways, but we believe sunseting the state aid formula at least brings to the table all parties in interest to find a solution to our overreliance on property taxes to fund something as important as K-12 education. LB572 is bold and we support this provision only if the Legislature cannot muster the political will to pass property tax reform this year. Thank you, and I'd be glad to answer any questions. [LB572]

SENATOR SMITH: Thank you, Mr. Mines, for your testimony. Senator Harr. [LB572]

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SENATOR HARR: Thank you, Chairman Smith. Do you know what percentage of students received equalization aid? [LB572]

MICK MINES: I do not. [LB572]

SENATOR HARR: Okay. If I told you it was 87 percent, would that surprise you? [LB572]

MICK MINES: Not at all. [LB572]

SENATOR HARR: Okay, because I think that's pretty darn close to the percentage that do receive equalization aid. This kind of reminds me, this bill, of repeal and replace except this is just repeal without the replace. And, you know, I honestly don't...I get you're trying to make a point, but I think you would agree with Senator Friesen that you don't want this bill to actually see the light of day. Would that be correct? [LB572]

MICK MINES: I wouldn't imagine this bill will be advanced from the committee. [LB572]

SENATOR HARR: Okay. [LB572]

MICK MINES: But it does bring up...it does continue the discussion and the dialog that the ag community is paying much higher proportion of the property taxes for K-12 education than property owners, proportionately. [LB572]

SENATOR HARR: Let me dig a little deeper on that because I'm not sure that is correct. [LB572]

MICK MINES: Okay. [LB572]

SENATOR HARR: I have a home. I pay approximately, according to the assessor, 92 to 100 percent of the value. Is that correct? [LB572]

MICK MINES: That's correct. [LB572]

SENATOR HARR: Okay. And if I have a property, I pay income property or commercial property the same way, 92 to 100. Do you know what percentage agriculture pays? [LB572]

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MICK MINES: Seventy-five percent. [LB572]

SENATOR HARR: Okay. So how can you make the argument that agriculture pays a larger percentage? [LB572]

MICK MINES: They pay...the property valuation is a much larger percentage than individual homeowners or individual businesses, small businesses. In fact, these are small businesses owners. [LB572]

SENATOR HARR: Okay. So what percentage of the total value is ag, of land in Nebraska? [LB572]

MICK MINES: I don't know that. [LB572]

SENATOR HARR: Okay. Okay, but you're saying they pay proportionately more than the others just because they're larger. [LB572]

MICK MINES: Yes. [LB572]

SENATOR HARR: Not necessarily outside of their proportion of the total value, but... [LB572]

MICK MINES: That's correct. [LB572]

SENATOR HARR: Okay. And I do think we have a property tax issue we need to address. I'm not sure if lobbing bombs and blaming others is the right way to do it, but I appreciate you coming to testify here today and it's always a pleasure to see...I haven't seen you in here for a long time. [LB572]

MICK MINES: Thank you very much. My pleasure as well. [LB572]

SENATOR HARR: I see you in Ag, but I don't see you here, so good to see you. [LB572]

MICK MINES: Thank you. [LB572]

SENATOR SMITH: I see no further questions, Mr. Mines. Thank you for your testimony. [LB572]

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MICK MINES: Thank you. [LB572]

SENATOR SMITH: (Exhibit 1) Others wishing to testify in support of LB572? We do have letters for the record in support of LB572 from Jon Habben, Nebraska Rural Community Schools Association. We now move to opponents of LB572, those wishing to testify in opposition to LB572. Seeing none...is it me that's moving too fast or...? (Laughter) [LB572]

JOSEPH YOUNG: No, just a very interesting day today in Revenue, like most days. Chairman Smith and members of the committee, for the record, my name is Joseph Young, J-o-s-e-p-h Y-o-u-n-g. I'm the executive vice president of the Nebraska Chamber of Commerce and Industry here to testify in opposition to LB572, for obvious reasons, I think. I thought we had a good discussion in here yesterday about the Nebraska Advantage Act and how business decision makers decide on where they're going to place their expansions or their relocation efforts all together. And moving the sunset date up from the current 2020 to 2019 would have an effect on how many applications we got from I think today, if it was passed, to the termination date. It really does take a business owners anywhere from one to three years and sometimes longer to decide on where they're going to place their expansions. And when they see that there's no stability in an incentive program, for example in Nebraska, they could very well take it off the table all together, so. For those reasons we are, of course, opposed to moving the sunset date up to 2019. In fact, we'd like to see the sunset date repealed all together. It's our opinion that you guys have natural sunset dates because you can repeal policy whenever you want to, any given year. So, we're opposed to LB572, and we appreciate Senator Friesen bringing it, but that concludes my testimony and I'll be happy to answer any questions. [LB572]

SENATOR SMITH: Thank you, Mr. Young. Senator Schumacher. [LB572]

SENATOR SCHUMACHER: Thank you, Chairman Smith, and thank you, Mr. Young, for your testimony today. Has the Chamber or any group to your knowledge ever done an analysis of what an acre of good farmland is worth without the government, without the roads, without the courts to enforce trespassing laws, without the railroad right-of-ways, without the bridges, without the filings in the UCC office, without the banking laws, without the education to teach the kids how to do the chemistry to make the seeds, and purify the fuels, what is just an acre of land without all that worth? [LB572]

JOSEPH YOUNG: You know, I wouldn't venture a guess on that and we have not undertaken such study. [LB572]

SENATOR SCHUMACHER: In Brazil, I think, it was 25 cents an acre. [LB572]

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JOSEPH YOUNG: Was it? [LB572]

SENATOR SCHUMACHER: In those undeveloped areas. [LB572]

JOSEPH YOUNG: Property taxes on that acre wouldn't be very much. [LB572]

SENATOR SCHUMACHER: That's right. Thank you. [LB572]

SENATOR SMITH: Thank you, Mr. Young, for your testimony. [LB572]

JOSEPH YOUNG: Thank you. [LB572]

SENATOR SMITH: (Exhibits 2-3) Others wishing to testify in opposition to LB572? We do have letters for the record: Jason Esser representing Nebraska Economic Developers Association, and Robert Hallstrom representing NFIB, both sent letters in opposition to LB572. Do we have anyone wishing to testify in a neutral capacity, neutral? Seeing none, we invite Senator Friesen to close on LB572. [LB572]

SENATOR FRIESEN: Thank you, Chairman Smith. I guess in response to Senator Schumacher, you know I...a piece of land is...it needs some of those services. And I, for one, have never advocated not paying property taxes to my county or to my NRD or any of those others. It's mostly K-12 funding that concerns me and I think it's unproportionately pushed on to ag. Other than that, my county services I've never complained about. I think it's a very local issue, it's a very local service to me: my roads, my bridges. I pay gas tax like everybody else and I probably even use a little bit more fuel than anybody else, but I realize the benefit of those roads and good markets and I'm willing to help pay for them. But it's, again, how we fund education. My theme has been pretty well the same in all of this is, how do we fund education and that's through property taxes. Senator Harr, response to yours. I mean, I pay 100 percent on my house just like you do. I pay 100 percent on my commercial properties that I have, the bins, the buildings that we have, storage. So, I mean, I pay 100 percent of that value. Ag is given a discount, but again I would ask, you know, what...how much should ag land pay towards education? Obviously, we have as an industry have taken less and less number of educated students or people to come into the industry and we have thinned our ranks over the last hundred-some years and we continue to. We are downsizing in number of people in expanding our ability to do more. And so, we do feel sometimes that we educate our kids and then we send them to Lincoln or Omaha to go to work and that's unfortunate because it's really hurting rural Nebraska in the long run. And so when I look at some of the things of how we fund things, I realize the urban areas can raise the total dollars that are a lot more than ours but when we look at per capita on how things are funded, I

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mean per capita when you look at the...there was a county's booklet, I think I referenced it in one of my earlier bills, you know, per capita, Hamilton County, which is a very ag district was number two in per capita paying of income tax in 2015, I think it was. We were higher than...you know, there was one other county higher than us. I can't remember who they were, but as far as paying property taxes, we were in that midrange per capita. But per capita is a little misleading. When you look at an industry where you have a business, for instance in town whether it's an accountant or a lawyer or anything else, the ability to earn off of that tenth of an acre that that building is situated on is ten fold, maybe twenty fold what I can raise on an acre of ag land. So my ability to produce again off of the land that I'm being taxed on versus the tax that he's paying to support the school district and, you know, you take the accountant and I'm...their income, I hope, you know, let's say it's around that \$100,000 if they're really good. They're in a small office building, they pay \$300,000 or \$400,000 in property tax. The average farmer, being 900-some acres, would be paying around \$80,000 and his income is way more variable year in and year out. There's nothing we can do about that. We've accepted that, but our ability to pay that property tax bill in our down years is what's the difficult part. Income tax is an easy one to say, but the property tax burden right now is one of our top expenses of raising a whole crop. When I look at all of my variable expenses that are out there, other than the land costs themselves, property taxes are at the top. Seed is cheaper, fertilizer, everything is cheaper than the tax. There's no other industry out there that can say that, so that's where I've focused on and trying to bring forward the, what has happened in the shift because of \$8 corn. And I have said it before, \$8 corn did our industry more damage than it did good. With that, I'm open to any questions. [LB572]

SENATOR SMITH: Senator Schumacher and then Senator Harr. [LB572]

SENATOR SCHUMACHER: Thank you, Chairman Smith. Thank you, Senator Friesen, and this is a bill I think that must have been brought to spur discussion... [LB572]

SENATOR FRIESEN: Yes. [LB572]

SENATOR SCHUMACHER: ...and those are good things. You may have found some, one better than what I, (laughter) but the education system has enabled you to have herbicides that can kill weeds and that your kids can never pull enough cockle-burrs in order to have the equivalent. Hybrid seeds that have embedded genetics that kill all the corn mold and all that--product of the education system. GPS in the combine and the data recording--product of the education system enhancing the value of the land. The engineering and all the equipment to be able to take 12 rows at a time instead of the 2-row cultivator; telecommunications infrastructure to transmit the data, control the irrigation pumps, all that other stuff, without that product of education planted back in the 1940s and, what, a good corn crop of about 20 bushels to the acre then? [LB572]

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SENATOR FRIESEN: I wasn't around. [LB572]

SENATOR SCHUMACHER: Probably pretty close. Yeah, probably pretty close to that. I seem to remember in the '60s Dad thought he was doing good when he got 40 bushels to the acre. And so that has got to be part of the system when we say, you know, what is creating the wealth in that land and its production ability. And there's so much that's going into that that's the result of education. [LB572]

SENATOR FRIESEN: Again, I agree. I mean I'm not one that has wanted to cut funding to education. I've never said that. I'm just saying that the burden has now shifted on to ag land which, up until we had that rise in price, it hadn't been doing. We were content. We had the...it was equalized between taxes, so to speak. I still thought it was an unfair burden, but when corn prices took off to \$8 and land prices shot up, even if you weren't a participant in driving up that price, you maybe didn't buy any high price land, you're values shot up along with it and you're forced to pay that bill. And in the rural areas, it's unproportionately put upon ag land as a tax burden that is different from other areas. Sixty-eight percent of my property taxes go to fund education. Again, most of the value out in our area is ag land, but it's not based on its ability to earn me an income, it's based on the value at the time. Ag land is a long-term investment. I don't know of any farmers who bought an acre of ag land knowing that it would cash flow. You're always leveraging something else to get that piece of ground. If you were going to go to a banker, a young man coming back to farm, you would never get an ag loan. There just wouldn't happen. You have nothing to leverage and the cash flow of that land would never pay itself off. And so it's a different type of investment than probably anything else. [LB572]

SENATOR SCHUMACHER: But also in that income category is a whole big chunk of unrealized capital gains that disproportionately the farm heir will receive over the guy who is a UPS truck driver in the city. [LB572]

SENATOR FRIESEN: And that could be said with stocks and bonds if you passed them down. I mean that's across all assets, if I recall. You can pass those along too. [LB572]

SENATOR SCHUMACHER: But if your stocks and bonds are, as most working people have it, in some 401(k) or some retirement fund, when their heirs cash that out, they pay ordinary income taxes on that. [LB572]

SENATOR FRIESEN: And my 401(k) is land. I don't invest in stocks and bonds because I don't have the money to do that. So my 401(k) gets taxed every year and if I wanted to sell that land for my retirement, yes, I would have to pay. [LB572]

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SENATOR SCHUMACHER: And that's why you got to die with it to beat that. [LB572]

SENATOR FRIESEN: You have to die, and so you can't really say that I'm going to work to 65 and sell the land and go on vacation. That's not how it typically works. [LB572]

SENATOR SCHUMACHER: Thank you. [LB572]

SENATOR SMITH: Senator Harr. [LB572]

SENATOR HARR: Thank you, Chairman Smith. So I was looking...when you look at statewide valuation land, ag is 42 percent, residential is 36 percent, commercial is 13 percent. But when you look at taxes, ag goes from 42 to 31; residential goes from 36 to 45; and commercial goes from 13 to 16. So it seems...I understand your argument, but, you know, there's two sides to every coin. And thank goodness you have residential, so you can pay your fair share. I say that with a wink. You know, is part of the problem that we're over relying on ag in certain areas? Do we need more diversity? [LB572]

SENATOR FRIESEN: I mean, my personal opinion, yes. We have pushed too much of it off on ag itself, but I also realize that the urban property tax owner, property taxpayer is also upset. [LB572]

SENATOR HARR: I'm at \$1.05. What's your levies in your different counties that you own land? Well, actually it's probably \$1.05. [LB572]

SENATOR FRIESEN: It varies. I own land in probably three different school districts so it varies anywhere from...I'm just going to make a guess here because I haven't looked recently, but mine where I live is probably in that 60-cent range or maybe a little under. Aurora is probably in that 86-cent range, and in neighboring districts go up to \$1.05. [LB572]

SENATOR HARR: Okay. Yeah. [LB572]

SENATOR FRIESEN: There's some...depends on...it's within...you can easily own land in neighboring side-by-side anywhere from \$1.05 down to 40 cents. [LB572]

SENATOR HARR: And that...part of the problem I see is, it's what you talk about. It's what's...I'm quoting Senator Schumacher. We used to have four families to a section, now we have four sections to a family which means 16 families use to support what one family does now.

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So that one person probably has greater wealth and so part of that problem is that there is increased wealth with that farmer and you have to have that economy of scale in today's agriculture. I'm not denying that. And the question is, if we are overly reliant, what do we need to do to increase or incentivize other industries to come out to use the by-product of what you produce so that we can have some diversity, so there are jobs for your kids so that you don't spend all the job educating them and then they come to Omaha. [LB572]

SENATOR FRIESEN: I think the ethanol industry has been the biggest boost to rural Nebraska than anything in recent history has been. It's been a tremendous driver of jobs and economic development in the state. [LB572]

SENATOR HARR: Are there other industries we can...and I know we're getting rid of the Advantage Act but others that we can incentivize to come out. At least in this building (inaudible). [LB572]

SENATOR FRIESEN: I don't know that. There are more industries looking at what to do with the ethanol product and the by-product. As those values may be stabilized and people do more research, there are biodegradable or renewable uses for ethanol other than just using in your car. They might be biochemicals. [LB572]

SENATOR HARR: Industrial use. [LB572]

SENATOR FRIESEN: Industrial uses and so eventually those industries could come locate next to ethanol plants. So there is hope out there that we...but we would maybe have to...I don't know if we could...I don't even know if we need to target those incentives because those companies coming to do that are going to need the product that's coming out of that ethanol plant. There's no reason to try and attract them other than keep them going to an Iowa ethanol plant versus somewhere else, which... [LB572]

SENATOR HARR: But we built those plants with incentives. [LB572]

SENATOR FRIESEN: Yes, and we as an industry also contribute a lot of money to that. [LB572]

SENATOR HARR: Fair, public-private partnerships. [LB572]

SENATOR FRIESEN: Yes, it was a very public-private partnership and it worked well. And at the time I always admitted that eventually those subsidies should go away and it should have to stand on its own two feet. But, you know, part of it is, again, in Hamilton County when I just ran

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some numbers, I think it came to 6 or 7 percent of the population was paying 55 percent of the tax. So, like you said, we have shrunk our population on the farm now, we've grown those farms. Our margins are still tight. You know, it's like when you farm and you're losing \$50 an acre and you farm another couple thousand acres and make up for it in volume, it doesn't really work that way that great. But that's what's happening. Our industry has grown and it's happened because we've had to. It's not through efficiencies that we've gotten. We've been able to adapt them when we have these high price cycles. We make a little money, we buy new tractors and we adapt technology. [LB572]

SENATOR HARR: Cheaper, faster, better. Our whole economy runs on that, yeah. [LB572]

SENATOR FRIESEN: Yes, everything is based on that. And the small industries that are out in rural Nebraska are no different. I mean, they've had to adapt and they haven't had the safety net that we have had. We have had farm program payments that definitely helped us out and kept us viable through some pretty tough times. Those small industries that support me, don't have that safety net. They go through some tough times on their own. [LB572]

SENATOR HARR: Thank you. [LB572]

SENATOR SMITH: It wouldn't be a hearing if I did not hear Senator Harr say, cheaper, faster, better. (Laughter) [LB572]

SENATOR HARR: Thank you. [LB572]

SENATOR FRIESEN: Multiple times. [LB572]

SENATOR SMITH: Thank you, Senator Friesen, for your closing on LB572. We now move to the next hearing on bill LB576. And this is to be introduced by Senator Brewer. It relates to limiting increases in property tax bills. And let me see how many folks are planning to testify on this particular bill. Show of hands. Okay. All right. And for those of you who may have joined us after the introductions, we are using a light system up to five minutes. The light will be on green for four minutes and then turn to amber for the last minute to wrap up testimony. Welcome, Senator Brewer. [LB572]

SENATOR BREWER: (Exhibit 1) Thank you, Chairman Smith, and good afternoon, fellow Senators of the Revenue Committee. I'm Senator Tom Brewer. For the record that is T-o-m B-r-e-w-e-r, and I represent the 43rd Legislative District which is 13 counties of western Nebraska. I'm here to introduce LB576 which creates a four-year cap on property taxes beginning 2019. What

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was just handed out is AM399. What AM399 does, simply clarifies, the original bill had two years. It starts...you'll see in the amendment, 2019, and the second part of that is that there is no property tax sales options. The original bill, some of the concern was that if someone was to, say, have an empty lot when the freeze started and then decided to build a hotel complex there, would it be paying the price of the empty lot of the hotel. So it basically clarified that you paid the valuation of whatever was built. I have been here for 40-plus days now, so learning the system and how it works is a challenge to say the least, especially when it comes to revenue and the budget. But I think there are some things that we can agree to. Property taxes are too high. Property taxes shouldn't go up any more. Property taxes are a very old and very difficult problem for the Legislature to solve. Everyone can agree the problem is so difficult and that the age-old impression that the people are getting is that we're kicking the can down the road. And to a degree, you cannot help but agree to that because as they pay their taxes, they see the constant increase. The other thing I think that we're going to have to agree to is that people's patience have run out. What brought this to a screaming reality to me was during the campaign when I rode through 28 towns in 24 days and covered 500 miles on a mule, the same broken record was in every town. Property taxes are too high and you have to do something about it. So it isn't like it's a local issue in any one particular place. The problem is, I believe, there's a degree of anger and concern that we're not concerned enough about it. I'm aware of the fact that there are a number of groups who plan to start a ballot petition that would force us to do just what I'm proposing in this bill. I believe that could put a very difficult situation...or make a very difficult situation even worse. Consequently, this bill, I hope, will at least force the discussion of how we can move forward and give some resolution to our current situation. Now, I want to talk about some things that should go into the public record. I want people to read the transcripts and hear and understand that in the days ahead that we attempted to walk this through and find resolutions, that it's not being ignored. People are concerned. But the problem that we face is that we are forced into a position where we must now act. Now there's a number of options out there. I'm not familiar with all the bills, but I have heard pieces and parts of some. Understand, this is solely my solution. If we keep doing what we're doing, we're giving the public the impression that we really don't care or we're not moving forward in a way that they see as an urgent need. So, consequently, I have made a decision that we must move in a way so that the constituents feel that their demands, their requests are being acted upon. It shouldn't be a surprise to anybody that this bill, even though it is not perfect, forces discussion and forces ideas to come out on how we're going to move forward. If LB576 becomes law, property taxes will be capped in 2019 at their 2018 level and will stay that way for four years. Passing LB576 puts a fail-safe lock on this problem. Come 1 January 2019 property taxes stop going up for four years unless the Legislature figures out a way to fix the problem before the cap takes effect. Now, there are over 600 bonding and taxing authorities in Nebraska. You may hear from some of them here today. They will tell you that this is a bad idea for a whole host of reasons. Who can blame them? A lot of the organizations stand to benefit from an out-of-control property tax system in Nebraska. They love the idea of kicking the can down the road and increasing taxes. My bill doesn't lower property

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tax, but it does make every other idea designed to do so a lot easier to implement if the body understands the clock is ticking on this issue. I think the people deserve to know that if their Legislature fails to act, that there is a day coming when the property tax situation will have to have a solution. LB576 makes that promise to the people. I will close by saying that what I said in the start that I don't have all the answers, but you don't need to be a senior senator to understand that this situation has got to the point that the people are no longer willing to tolerate this or let it continue to be kicked down the road. If we don't pass this bill, there is little that will stop property taxes from continuing to go up. If we don't pass this bill, there's little that will compel the Legislature to solve the problem, and if we don't pass the bill, there's very little that will stop this can from being kicked down the road even more. I guess the parting thought that I would leave with you is that as much as I'm sure you'll hear in the next few minutes all the reasons why we shouldn't pass this, I would also ask that you listen to those who are the ones that are paying the taxes and have their concerns, because I think you'll hear more than the fair share of them also. And maybe that is what has compelled me to move forward with this bill, the ones who have reached a breaking point. And so with that said, sir, I will take your questions. [LB576]

SENATOR SMITH: Thank you, Senator Brewer, for your opening on LB576. Questions from the committee? Senator Schumacher. [LB576]

SENATOR SCHUMACHER: Thank you, Chairman Smith. Thank you, Senator Brewer. You pointed out this is your 40th day. [LB576]

SENATOR BREWER: Forty-some. [LB576]

SENATOR SCHUMACHER: Forty-some. Well, I did the math on 40th. Do you realize you're 6.6 percent done already? [LB576]

SENATOR BREWER: No, I didn't, but it feels more than that. (Laughter) [LB576]

SENATOR SCHUMACHER: Thank you. [LB576]

SENATOR SMITH: All right. I see no further questions. Senator Brewer, you're going to remain for closing, I assume? [LB576]

SENATOR BREWER: I'm all yours. [LB576]

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SENATOR SMITH: All right. Thank you. That is the opening on LB576. We now begin with proponents of LB576, those wishing to testify in support of LB576. Please come on up to the table. Welcome. [LB576]

MIKE KOZLIK: Good afternoon. My name is Michael Kozlik. [LB576]

KRISSA DELKA: Do you have a green sheet filled out? [LB576]

MIKE KOZLIK: Pardon? [LB576]

KRISSA DELKA: A green sheet. [LB576]

MIKE KOZLIK: Not yet. Excuse me. [LB576]

SENATOR SMITH: And how about this. If you go ahead and do your testimony, then you could turn that in to Krissa. I'm sorry, but so we can just keep things moving. [LB576]

MIKE KOZLIK: Sounds great. Mike Kozlik, K-o-z-l-i-k. I'm a resident of Douglas County, Nebraska. I practice law here in Nebraska. I previously was a CPA. I advise people on tax matters. In 1992, I represented five state senators that filed an original action to declare property tax as unconstitutional per se. The result of that was that Ben Nelson called a Special Session of Legislature and we enacted a constitutional amendment. I think in the words of Popeye, the taxpayers have had all they can stand so they can't stand no more. With regard to what we're about today is as follows: The taxes that you pay on property, real estate in particular, is value versus a mill rate. What we want the Legislature has already addressed, the maximum mill rates that the various school districts can levy, and also for other government subdivisions. This bill, what it does is, it addresses the valuation increase side. We're not, in effect, taking away revenues from school districts and other governments. What we're saying is, you're going to be on a budget and you're going to have to start cutting some fat, and you're going to do that for a four-year time period. I believe in my household at least, we do that periodically where you rejiggle your budget depending on your revenues, and occasionally find something that's not totally essential. I think that the crisis in property taxes, and I'm going to call it that, is really boiling over to where it's going to start impacting government's...government at all levels. I've looked at the bill and I've reviewed LB576. I've looked at it from a United States Constitutional standpoint. I've looked at it from the Nebraska Constitution. It's my opinion, to a reasonable degree of legal certainty, that the bill as amended is constitutional. It gives adequate notice to the taxpayers as to what's going to happen. It gives them an ability to adjust their values to go in through the equalization process if they're unhappy with them now. It sets a time frame to get that done. It

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also encompasses what happens in a matter of fairness. Suppose your property is destroyed by a fire or a tornado and you knock the building down. Well, the building is no longer there so then that piece of property is going to be valued for tax purposes at the value of the land. So what about the person that has land and puts up the Taj Mahal. Well, whatever the cost of those improvements are, that will increase the value. So actually, it's very fair and elastic to everyone. The county assessor already has the statutory authority to obtain the information necessary to adjust those values. They can do so through their lawful process and also through the county attorneys. And the other thing that still allows people to come in and say, hey, madam or mister county assessor, you've got my value for X due to these improvements. It's inappropriate. It's wrong. They still have the ability to come in and protest, so their due process rights are going to be preserved. With respect to property taxes, I'm not making a statement as to what government subdivision should or should not do, but I believe that with regard to government subdivisions that I'm involved in, I kind of wonder if there isn't some sort of mission and goal drift. For example, the city of Omaha, it's primary function is police, fire, streets, picking up the trash in parks. And they're doing all this other stuff. Where's the money coming from? It's coming from the property taxes. Real estate property taxes is the tax outside the income tax that reaches and touches the largest number of taxpayers in the state of Nebraska. And it's come to such a crisis that I want to relay to you a story. There was a fellow that used to live in Dundee...the Dundee area of Nebraska where I live. His name was Earl and he lost his house. He didn't have the money to continue with it, I think for a lot of reasons. But what he started doing rather than be homeless, he threw himself in front of a bus so he could go to the hospital and have a place to be. I think that is where we're at. With that, I'll...if you have any questions, I'd welcome them. [LB576]

SENATOR SMITH: Thank you for your testimony today. Senator Friesen. [LB576]

SENATOR FRIESEN: Thank you, Chairman Smith. When I look at the amendments here and basically what you're going to do is hold the assessed value of the property the same and, therefore, taxes would theoretically stay the same. [LB576]

MIKE KOZLIK: The value would stay the same, correct. [LB576]

SENATOR FRIESEN: The value. And so, I mean, this is... how much...what kind of increase have you seen in the last ten years in residential value? [LB576]

MIKE KOZLIK: My home went up something like 26 percent in a year. [LB576]

SENATOR FRIESEN: Twenty-six percent a year in value? [LB576]

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MIKE KOZLIK: A year, in value. [LB576]

SENATOR FRIESEN: So what was the tax asking that you actually had to pay? What increase was there? [LB576]

MIKE KOZLIK: Right now, I'm paying around \$13,000 a year. [LB576]

SENATOR FRIESEN: What percentage of those...increase did you see in the actual check you had to write? [LB576]

MIKE KOZLIK: That I'm not familiar with. I don't know because it comes through the mortgage holder. [LB576]

SENATOR FRIESEN: Okay. I just...what I want to get at is, I mean, I, too, think valuations are getting out of hand, but when I look at ag land values and what that industry has had to do, the check you write has gone up 180 percent in the last ten years, 18 percent a year. So valuations don't concern me as much as the check we have to write. We can talk about levies, we can talk about valuations, but in the end, how much tax are you collecting? So I appreciate your concern. [LB576]

MIKE KOZLIK: And the problem is, I think that the amount the government subdivision needs to collect is totally divorced from the amount of tax they actually collect. The other problem that you have with taxation based on value is traditionally when properties are...values are moving up or they accelerate a lot, people that own real estate have a tendency to list them for sale. But when they tend to go down, they tend not to get sold, and so when you have comparables, you don't have a lot of low-end comparables to reduce the valuations. And so they stay artificially high and that's what you're seeing in agriculture right now. [LB576]

SENATOR FRIESEN: Thank you. [LB576]

SENATOR SMITH: Senator Harr. [LB576]

SENATOR HARR: Thank you for coming. How do you address the issue of uniformity? [LB576]

MIKE KOZLIK: This is uniform. It applies to all real estate. Everyone in every category of real estate would be held the same. [LB576]

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SENATOR HARR: Well, except that your house in the next five years may go up 10 percent and mine will go down 5 percent over the period of this bill. And so they wouldn't be uniform with each other as is required. [LB576]

MIKE KOZLIK: Not...yes, they still would be because the uniform and proportionate...uniformity does not mean it has to be by value. It doesn't have to be a floating value. Uniformity means that everyone within the same category has to be treated the same. It's more of an equal protection issue. [LB576]

SENATOR HARR: But they wouldn't be treated because I'd be paying at a higher rate. If they're proper today and mine goes down in value, I'm paying a higher percent of property tax than you would because yours went up in value from what it is today. [LB576]

MIKE KOZLIK: What I'm saying is that when you freeze the value, everyone collectively has a frozen value and the valuation change down the road. [LB576]

SENATOR HARR: So we aren't tied to market. [LB576]

MIKE KOZLIK: Right. [LB576]

SENATOR HARR: Okay. Let me ask you this then. What I don't...and I'm not sure on the answer on this. So my house, I have on my property tax says, here's the value of your land; here's the value of your improvement on your land. Under this bill it would appear to me even though my land remains the same, you could increase the value of my improvement, meaning my home. Is that correct? [LB576]

MIKE KOZLIK: That's correct. If you, you know, substantially, you know, if you make improvements to your home, it would go up. [LB576]

SENATOR HARR: Let's assume I don't make any changes to my home. It could still go up in value. [LB576]

MIKE KOZLIK: No. [LB576]

SENATOR HARR: Tell me how it can't because everything I've said is the real property. I don't see anything about freezing the assessed value on the improvements. [LB576]

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MIKE KOZLIK: The improvements are attached to land and they're part of the real estate for real estate assessment purposes. [LB576]

SENATOR HARR: Well, I'm not sure if I agree with that interpretation. [LB576]

MIKE KOZLIK: Well, the old statute, 77-1301, that's the one that enables...it's the enabling act really that allows the counties to value the real property. [LB576]

SENATOR HARR: Okay. [LB576]

MIKE KOZLIK: And so by and through that we're saying the improvements, the underlying black acres, so to say, are all incorporated. [LB576]

SENATOR SMITH: Senator Schumacher. [LB576]

SENATOR SCHUMACHER: Thank you, Chairman Smith, and thank you for your testimony. This bill as I read it just deals with the valuation side of it. [LB576]

MIKE KOZLIK: That's correct. [LB576]

SENATOR SCHUMACHER: And except for those jurisdictions or taxing entities that are at their levy limit, they will continue to experience whatever pressures there is and have been to increase their spending. Some of those are contracts, some of those are obligations, some of those are just things that would be nice to have. And so this is not a control of taxes unless you're against the levy limit. And what we've repeatedly seen is that at the meetings, the budget hearings of the local taxing entities, there's very poor turnout. We probably have a better turnout here complaining about taxes than they have with the people who are actually setting the budgets and spending the money. And at those levels, are the levels at which the decisions are making. Do we give a raise? Do we buy a new piece of equipment? Do we build a new building? Do we do all those things? So how do we address the core problem because this doesn't change taxes unless you've got a levy limit. [LB576]

MIKE KOZLIK: Well, to some extent, look at it this way. You've got, let's just take school districts for example. I don't know whether or not all school districts are at their levy limit. I'd speculate they're not. And if they've been frugal with their dollars, and they've kept their mill levy low and then they have a laudable need that comes up down the road, they would not be penalized from increasing their mill levy for that laudable need, whereas, districts that have been spending their money like a drunken sailor and are at their levy limit, they would have to say,

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guns or butter. Which are we going to have? What are we going to do? The Legislature already addressed the levy limit issue, but in doing so did not touch the valuation issue. This touches the other part of the equation. [LB576]

SENATOR SCHUMACHER: Well, most of the rural districts are unequalized and basically they're not at their levy limit where the urban districts are right up there against their levy limit. So it would seem that this would benefit the urban districts because they can't take a levy up, but as far as the tax bill that Senator Friesen gets on his land, his local folks could continue to raise it until he hit the levy limit. [LB576]

MIKE KOZLIK: I think in Senator Friesen, what he needs to do is organize grassroots to, at the ballot box, effectuate their will as to what they want to have happen. With regard to the large school districts, I personally do not know which school districts are at their levy limit or not, but I would speculate that many of them are. If nothing else, what we're saying here is the Legislature has got a four-year window really to try to start working something out before we have the people really bring forward more Draconian results. I think this really benefits the taxpayer and it benefits the government school districts. And we've got to remember one thing. Taxpayers and governments are like a marriage. Each needs the other for certain things. Sometimes the relationship gets a little bit out of whack. And I think what's happening is that the taxpayers are saying the relationship is out of whack. If you have a school district that's spent its money prudently, let's not punish them. But if you've got a school district that where they're at the limit, this bill would definitely put a cap on them. I think I would rather be in a district where I'm a vote of 100 or 80 or 200, than I am in Omaha where I'm a vote of, you know, over 100,000. And I think that's the difference. I think the people in the smaller districts have a lot better local control. [LB576]

SENATOR SMITH: Thank you, Mr. Kozlik. Senator Friesen. [LB576]

SENATOR FRIESEN: Thank you, Chairman Smith. You mentioned the local control portion but I own land in three different school districts, I get to vote in only one of those. So I have no say in two of those. What is your suggestion there? [LB576]

MIKE KOZLIK: There's nothing that prohibits you from politically organizing in those other districts. (Laugh) In this last election, I was amazed at how many people were coming around asking me to vote for this candidate or that and none of them were from Nebraska. [LB576]

SENATOR FRIESEN: Well, you know as an ag...as an ag producer, we represent probably 3 percent of the population. So when we have a vote, it's easy to pass a ballot initiative to build a new school, put up a new gym, and we are outnumbered. We pay the bill and yet we have just

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one vote along with everybody else, but the majority of that value comes from ag land and we haven't got much say on that. Thank you. [LB576]

SENATOR SMITH: Thank you, Mr. Kozlik, for your testimony for us. We now move to the next testifier, proponent of LB576. And, Mr. Kozlik, if you would please turn in that green copy. Welcome. [LB576]

DOUG KAGAN: (Exhibit 2) Good afternoon. My name is Doug Kagan, D-o-u-g K-a-g-a-n, Omaha, Nebraska, representing Nebraska Taxpayers for Freedom. This year has brought a crescendo of complaints from both our urban and rural members regarding property valuation spikes. Our state valuation assessment system is dysfunctional, as implemented. The methodology and models used erratically, setting many properties at over 100 percent of market value. Overvaluations lead to a torrent of appeals, and the appeal process itself is long and convoluted. This spiking in valuations has led to a related spike in property taxes. Several of our members complain that this combination is literally taxing them out of their homes. The charts below, front and back, starkly show valuations rising in ten years between 32 and 266 percent, with higher property taxes tagging along. We believe that LB576 will provide a cooling off period for this escalation and offer the Unicameral sufficient time to legislate comprehensive property valuation reform. Dispense with tweaks and band-aid approaches to property valuation alteration. LB576 will give needed impetus for senators to work together on a bill to offer real property valuation relief, relief that will likewise remove the pressure of higher property taxes. It is not a partisan or ideological issue; all property owners are bleeding. LB576 does not compete with or distract from other bills. This bill will be your broadcast to every county assessor and local property taxing authority in the state that the Legislature is solemnly serious about stopping the accelerating spiral of property values. Our archaic valuation system lags behind other states in comparison. Some, like Tennessee, peg their valuations at lower percentages of market value or exempt a specific percentage of property. Nebraska in the past assessed property at 35 percent and 50 percent of market value. Owner-occupied dwellings win percentage exemptions in some places. Others limit increases to annual percentage hikes, like New Mexico, 3 percent. Require counties to pay interest on successful appeals. Also, improve criteria, like better defining "objectively verifiable data," or exempting home improvements from calculations. Allow county boards of equalization more authority to finalize appeals. Streamline the appeals process. Permit citizens easy access to models and methodologies used. Tie valuations to property tax levies by a formula that lowers valuations as taxes rise or lowers taxes when valuations rise. Request the Property Tax Administrator to study current assessment and uniformity and equalization standards for revision. It's been our experience that the valuation now...system now has really two big problems. First of all, difficulty with county assessors implementing the valuation system with the current criteria as we've seen up in Douglas County, and secondly, the valuation system used in Nebraska as a whole is very archaic and it needs to be completely revamped. Thank you. [LB576]

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SENATOR SMITH: Thank you, Mr. Kagan, for your testimony. I see no questions from the committee. Come again. [LB576]

DOUG KAGAN: Thank you. [LB576]

SENATOR SMITH: Next proponent of LB576. Welcome. [LB576]

JOHN CHATELAIN: Good afternoon. I'm John Chatelain, C-h-a-t-e-l-a-i-n, and I'm speaking on behalf of the Metropolitan Omaha Property Owners Association and our lobbying affiliation which is Statewide Property Owners Association, which we affiliate with the Real Estate Owners and Managers Association in Lincoln and also the Gage County Property Owners in Beatrice. Metropolitan Omaha Property Owners Association is an organization of about 500 property owners and managers, primarily residential real estate, and our organization is a proponent of this bill. We support it. Something needs to be done about the out-of-control increases in real estate taxes in Nebraska. I read recently Nebraska is the seventh highest tax state in the country in terms of real estate taxes. This is not a good reputation for us to have around the country. And you may think, well, why do we care about landlords? These increases in property real estate taxes get passed on to the tenants as well who are struggling to pay their rent and they're just...there needs to be something done. I question the whole valuation approach actually because last year the state arbitrarily told the Douglas County assessor that she must increase the valuations in west Omaha 7 percent after she had done her job of valuing those properties, and in northeast Omaha decrease them by 7 percent. So what is going on? I'm sure this bill is not perfect, but it's a very good first step. We need to do something about the real estate taxes. If this is not a perfect bill, at least it buys the state some time in order to figure out what is going on with the real estate valuation process and the real estate tax increases. [LB576]

SENATOR SMITH: Thank you, Mr. Chatelain. I see no questions. Thank you. Next proponent of LB576. Welcome. [LB576]

LEE TODD: Well, thank you. Senator Smith, how are you? [LB576]

SENATOR SMITH: Good. Good to see you. [LB576]

LEE TODD: (Exhibit 3) Good to see you. My name is Lee Todd. I live here in Lincoln, Nebraska, at 3900 Pace Boulevard. I'm a...I guess a benefactor of having the ability to live here at the state. I have commercial property, I have residential property, and I also have some agricultural property. We grew up on a family farm in northern Nebraska. My father still farms there. I wanted to bring to your attention some of the issues that are going on in the state of

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Nebraska. I think when I looked at this and everybody is saying...almost everybody, property taxes are too high. Well, by what standards? I felt that, but I can feel a lot of things. That doesn't mean it's right, that doesn't mean it's wrong. So I thought let's make some comparisons and let's really drill down and see what's going on. And the money dollar graph, if you will, is on the page that--you can flip it over--chart comparing property tax increases versus federally adjusted gross incomes for various earnings categories in Nebraska. That sounds like a mouthful. But let me break it down what it really means. I was able to drill down into some data sets and the time period and everything that I'm going to refer to is from 2006-2014. The reason for that is, I was able to find adjusted gross incomes for families in the state of Nebraska for that time window. I also was able to find property taxes and their rates and their increases also for that time window so I can get a good apples-to-apples comparison. And if you look at the numbers and that graph at the bottom--I apologize, it's a little bit overlapped there--but you can see the different income categories. For instance, let's just take the people that are making from \$40,000 to \$45,000 on the bottom there. Their incomes in the state of Nebraska have gone up about 9 percent...9 percent. On the extreme right of that graph, you will see something called property taxes and again for the same time period, 2006 to 2014, property taxes have gone up 45.07 percent. Nebraskans are getting crucified, and I almost mean that literally. You will hear the opponents come up and they will say, we cannot suffer a property tax decrease. You will hear that argument and you will hear time and time and time again. I'm here to tell you what is Draconian is telling families in Nebraska that once again their property taxes are going to go up. Year after year, decade after decade, and I promise you if I could find the data sets, I guarantee you we could take this data back to, say, 1990. That five times for that 8 percent increase versus 45 percent, that would be much worse. Even if you look at the top \$250,000 and the whole subset below that, their incomes have gone up 22 percent. Property taxes have gone up 45 percent in that same time window. It is time to do something. It is beyond time and it is not only Draconian not to give these people a break, families that are struggling out there and they are. It is criminal what is happening. We are the seventh highest (inaudible) or payer of property taxes in the state of Nebraska. We've got a number of other taxes that are relatively high. We can do something about this and we have some plans that we would like to talk to each and every one of you about. But this bill, first of all, and it doesn't take effect until 2019. It says, at 2019, we're stopping things. We've had enough and we're going to give the Legislature some time to get their priority straight and let's address this issue from a fiscally responsible standpoint. If you have any questions about the graph on the back, I'd be happy to talk to you about them. Those sources are from the Nebraska Department of Revenue and the Nebraska Department of Revenue Property Tax Assessment Division. [LB576]

SENATOR SMITH: Thank you, Mr. Todd. Appreciate you being in here today. [LB576]

LEE TODD: Thank you. [LB576]

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SENATOR SMITH: And thanks for putting together the chart and information for us. [LB576]

LEE TODD: You're very welcome. [LB576]

SENATOR SMITH: Next proponent of LB576. Welcome. [LB576]

CATHERINE COOK: (Exhibit 4) Thank you. Good afternoon, Chairman and committee members. My name is Catherine Cook, C-a-t-h-e-r-i-n-e, last name Cook, C-o-o-k. I am in favor of LB576. I remember a month or two ago, Dr. Truemper talked to our group about this bill and I asked him the question, how do you stop them from thinking of other ways so they can raise our property taxes? Well, guess what happened. The valuations went up and I have attended all four Douglas County board meetings. They started at 9:00. People were lined up to the door. Douglas County Commissioners' phones were ringing off the hook. They were getting bombarded with e-mails because the valuations not only increased, but they were totally...many of them were incorrect. They were inconsistent. I heard stories of land going from \$30,000 to \$280,000. I heard property owners who purchased their property last year whose valuation went up \$10,000, \$20,000 just since last July. I heard nightmare stories. I heard grandparents stand up and say if it wasn't for my grandchildren, I would be out of this state because this is ridiculous. I heard horror stories. I lived out of state and I returned to Nebraska because it's home. My mother passed away a year and a half ago and we talked endlessly about the education systems. I'm one of nine children. My mother started teaching in a rural school again when my youngest brother got into school and we lived on my dad's salary. He was a livestock truck driver and we didn't spend money that we didn't have. We lived within our means and we never received any welfare. We knew how to balance our budgets. I think about my mom being a rural schoolteacher, her students excelled. She had 15 kids in one classroom. She taught the three Rs. She taught music. She did the janitor work and I look at...I don't even have children and I think about what I pay in property taxes and I look at what comes out of these schools and I can't believe it. I'm appalled. I worked with these young people. There aren't any results. These school systems want more and more and more money and they want the latest and the greatest and what's the result? Nothing. These kids can't even...they can't even add and subtract, let alone multiply and divide. I know. I've worked with them. I watch them. So I say, you know, I'm about ready to get out of this state again and get more bang for my buck and so are a lot of other people. This problem needs to be solved. Thank you. [LB576]

SENATOR SMITH: Thank you, Ms. Cook. Senator Schumacher. [LB576]

SENATOR SCHUMACHER: Thank you, Chairman Smith. Thank you for your testimony, Ms. Cook. The state that you're thinking of going back to with the bang for the buck, can you tell us where that is? [LB576]

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CATHERINE COOK: I've lived in Utah, I've lived in Florida. I can go anywhere. I do my research and decide where I could get the most for my money. [LB576]

SENATOR SCHUMACHER: Thank you. [LB576]

CATHERINE COOK: I don't have any commitments here. I don't have children and my mom has passed away, so. [LB576]

SENATOR SCHUMACHER: Thank you. [LB576]

SENATOR SMITH: All right. Thank you for your testimony. Next proponent of LB576. Welcome. [LB576]

NATHAN HABEL: Hi. Long time no see, guys. My name is Nathan Habel, N-a-t-h-a-n H-a-b-e-l. I've come today to voice my tepid approval for LB576. Once again on principle, the limiting of the valuations seems like a good starting point, although this bill I don't think addresses any of the chronic issues that we have as taxpayers in the state, but because it helps start the process, I am tepidly for it. I wanted to speak a little bit about Senator Schumacher, a comment that you made about the differing government bodies and the way that they make decisions and how few turn out there is for situations like that. Can I just say, it's not easy to participate in government when you have a one-income household, a family, and obligations to church and other activities, it's tough to make it out to meetings like this. But I wish places like that made decisions similar to how we make our decisions at the kitchen table, which, you know, the budget has made a lot of those decisions for us. We don't need to worry about what equipment to buy or raise to get because the money...or the resources aren't there. And I have to gauge what we gain against me being gone that much longer towards any decisions that we do want to have, any luxuries. Our needs are met and I can't complain in that regard, but I would like the state to make decisions like that having to limit and having the budget make those decisions out of the resources. To me property taxes is a classic case of the Overton window. So while our rate would be frozen and a lot of us would cheer and go yea, I think it does little to affect the fact that the rate is unreasonable. It's too onerous. It's way too high and is too much of a burden on families. And so, sure, it's somewhat satisfying to see a step towards a more fair process but should the bill protract any of our problems or bide time for other things to happen, I think that it would be a failure if we find ourselves here in four years with jumps in valuations. Should the four years be used to actually utilize real measures that would help alleviate the pressures on our families, I think that that would be a better approach. The lady that just spoke before me, I've got to hand it to her. To be here voluntarily, I don't even know what that's like. My last testimony I spoke of in terms of how long I have to be gone from my family to pay my property tax bill. And it was at every bit of two months at my current salary. And I just want my life back and I want time with

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my family. Yesterday, I took two of my daughters and instead of going out to play, I went to a side job to help somebody repair a car and they got to hold the flashlight and the wrench and it wasn't very fun, but that's my life. If I want to see my kids, that's what I do. So I'm asking the state to just calmly, collectively, lets create an environment where we can walk this back and just get to a reasonable rate. Paying our property taxes should be similar to paying a utility bill. Regularly it's, you know, not that big of a deal, it's something that we have to have. And I appreciate you guys for being here. One last thing, I see that it's yellow. Is there a policy about not having the curtains open? I think let some sunlight in would be helpful. This dungeon effect here, you know. (Laughter) [LB576]

SENATOR SMITH: Mr. Habel, that would just depress us. (Laughter) We would want to be out there. Were there questions for Mr. Habel? [LB576]

NATHAN HABEL: Oh, yeah. Senator Friesen, I'm excited. Go ahead. What have you got, Bud? [LB576]

SENATOR FRIESEN: Thank you, Mr. Chairman. Well, I appreciate you coming in and along with Ms. Cook, I mean, you show a responsibility and you just want to make a living and survive here. And our job is to make it so that you can stay here and we're going to try really hard to do that. But we have to sometimes, we have to have help in kind of showing us the way that you want us to head and by coming in and testifying, I mean, I appreciate you taking the time off to do that. [LB576]

NATHAN HABEL: Sure. Yeah. I appreciate your comment. I have actually expected a lot more resistance to, you know, coming down here and I figured everybody was going to try and shake me down for a few more bucks, (laughter) but you haven't, so thanks for that. I mean that's great. [LB576]

SENATOR HARR: We can. [LB576]

SENATOR SMITH: That begins with your third time in front of the committee. [LB576]

SENATOR FRIESEN: From sitting in this chair, one thing we could do is turn the heat down. It does get a little warm. [LB576]

NATHAN HABEL: Right. [LB576]

SENATOR SMITH: We do appreciate you coming in. Thank you. [LB576]

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SENATOR FRIESEN: Thank you. [LB576]

NATHAN HABEL: All right. [LB576]

SENATOR SMITH: All right. Continue with the next proponent of LB576. Welcome. [LB576]

CHIP SMITH: (Exhibit 5) I came in late. I might need to make copies of this. Is that okay?
[LB576]

SENATOR SMITH: Is that something you would like to have shared? That's all right. Welcome.
[LB576]

CHIP SMITH: Senator Smith, Friesen, legal counsel and research analyst and Senator Schumacher, just so I don't...Harr, and committee clerk. Very good. Good afternoon. It is dark in here, but I kept my reading glasses on, so very good. My name is Chip Smith, 331 Village Pointe Plaza, Omaha, Nebraska, 68118. I'm a citizen. [LB576]

SENATOR SMITH: What we ask is that you spell your name for us. [LB576]

CHIP SMITH: C-h-i-p, Chip. Smith, S-m-i-t-h, definitely American, not Russian. Okay. I'm in favor of LB576 for very personal reasons. I'm a real estate agent in Omaha. I sold for over 25 years and I want every senator on this committee to understand how our present distorted valuation system is hurting me personally as a real estate agent. Out-of-control property valuations are causing prospective home buyers, yes, people that I deal with on a daily basis to hesitate about buying a home. Okay. They worry about the high property taxes and they come from the high valuations, all right, that's going on right now. They're not sure now that they can afford to buy a home. It's getting out of hand with valuations, prices, fewer people are buying homes means fewer real estate commissions which is my income. Okay? I deal with this situation every working day. You may hear about the hot housing market. Well, it's not so hot for working people like myself. It's oversaturated. As a real estate professional, I urge you to put a moratorium on property valuations increasing. I realize that you will feel pressure from the LB576 opponents who worry about their revenues. Okay? But we've got to help families from the suffering of all the ridiculous high valuations should give you all the reasons you need to reform the entire property valuation system. Please advance LB576 to help the Nebraska citizens and their families. Okay? Thank you. Any questions that you may have. I'm just a citizen.
[LB576]

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SENATOR SMITH: That's all right. Thank you, Mr. Smith, for your testimony on LB576. Do we have questions from the committee? Senator Friesen. [LB576]

SENATOR FRIESEN: Thank you, Chairman Smith. So people are concerned that property taxes keep rising and they don't want to buy a house because they're scared of what the costs will be two years down the road? [LB576]

CHIP SMITH: Right. [LB576]

SENATOR FRIESEN: So if we...let's say we freeze property taxes for four years and you sell a house this next year and you'll say, well, property taxes are frozen, they can't go up. And the Legislature in the meantime does nothing, as it has done in the past 20 years with property taxes, and then after the end of those two to four years, property taxes are going to take a pretty big jump. Does that make you feel a little uncomfortable? [LB576]

CHIP SMITH: No, I suggest you read...I suggest that we go back to the issues that are causing those taxes which is an illegal immigration, things such as this, okay. Cut that out. We're paying for over 50,000 illegal people in the state of Nebraska off of your property taxes. If you all get with it, you'll know that cutting that out would help relieve some of the stress so this gentleman that spoke can spend time with his family and not have to have his daughter hold a flashlight. Okay? For the working real citizens of the state that want to stay in the state, that love this state, you know. [LB576]

SENATOR FRIESEN: Okay. Thank you. [LB576]

CHIP SMITH: Any other questions you may have? [LB576]

SENATOR SMITH: Other questions from the committee? I see none, thank you, Mr. Smith, for being here. Thank you for your time on LB576. [LB576]

CHIP SMITH: All right. Well, thank you guys. [LB576]

SENATOR SMITH: We continue with proponents of LB576. Proponents of LB576. [LB576]

SENATOR FRIESEN: Welcome. [LB576]

JAMES SAZAMA: Where did Chairman Smith run off to? [LB576]

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SENATOR FRIESEN: He had to leave the room for a little bit. I'll be taking over. [LB576]

JAMES SAZAMA: (Exhibit 6) You're taking over. Good afternoon, Chairman and Revenue Committee members. My name is James Sazama, that's spelled J-a-m-e-s, last name S-a-z-a-m-a. I've been sitting here very patiently today and I've been sitting in Omaha, Nebraska, Douglas County commissioners meetings very patiently listening to this uproar we have about spending...spending. Now you guys are all pretty intelligent people sitting here and I want to thank Senator Brewer for introducing this because we're asking to put something on the shelf for a period of time, you know, until you guys, amongst your cohorts, can figure out some equitable way of raising revenue. You know, Senator Friesen, you asked Chip here a question, you know, what are we going to do in two to four years here? My God, taxes are going to go way up. Has it ever occurred to you, maybe we need to cut back on the spending? Has it? Yes? No? [LB576]

SENATOR FRIESEN: You don't get to ask the questions. [LB576]

JAMES SAZAMA: Oh, okay. May I make a...can you make an exception here and give me 30 or 40 minutes. [LB576]

SENATOR FRIESEN: You can just continue with your testimony. [LB576]

JAMES SAZAMA: All right. I'm going to start here. My wife and I have resided in a home in Omaha, Nebraska, for 43 years and regarding our property taxes we have paid for our home four times just in the property taxes. I think that's ridiculous. Next paragraph here, I'm going to read this. I have attended numerous meetings in Omaha during the past four months. The Douglas County Assessor, Debbie...no, Diane Battiato is actually taxing people out of their homes. Hundreds of residents have protested their recent valuation. If you were down there at the meetings you would have seen that because there were virtually hundreds of people. The assessor has attempted to explain the current process she is presently using, but has left members of the Douglas County Board of Equalization in a daze. You know, you sit there and you watch these guys and their eyeballs are just rolling because they're trying to figure out what our county assessor is saying there. It's really something to see. It's almost...it's just dysfunctional, but that's why Brewer wanted to put this in here so we could get a handle on this. My neighbor the other day, just two doors down, he and his lovely bride are going to move. He says, I can't handle this anymore, Jim. He's retired from Omaha Public Power District and they're going to move to Missouri. He says, this is just getting to be too much here. I'm a retired guy, inspector-type individual, and the county keeps raising my rent. Every year it goes up, constantly. You know, what I mean by rent is my taxes, okay. Every year they keep edging up here. You know, like I said earlier, four times...four times we paid for that little box we're in here, you know, and it's not as nice as it was 40-some years ago because it's older. Now, why that keeps inflating in value, my

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pickup and my car don't keep inflating in value here. Something is haywire here in Denmark. I'm going to go back to this paragraph here. Some valuations have increased 100 to 400 percent. Can you imagine that in a home increasing that with no valid reason? I'm referring to both the homes and the lots that the people's homes are sitting on. And the assessor, Diane Battiato, she has no valid reason. She just talks in circles here. It's really quite a show to see. Maybe we'll get her replaced with somebody that knows what they're doing in this arena here. And now, my last paragraph. I expect this committee will forward LB576 to the floor for discussion and action. Passage of LB576 will give the state time to discover process which is equitable and fair to everyone residing in Nebraska. Now that's not too much to ask as a taxpayer and a citizen of this country, you think? Any questions, folks? [LB576]

SENATOR FRIESEN: Thank you, Mr. Sazama. Any questions from the committee? [LB576]

JAMES SAZAMA: I got a smile. (Laughter) [LB576]

SENATOR FRIESEN: Seeing none, thank you for your testimony. [LB576]

JAMES SAZAMA: You bet. Let's just fix it. [LB576]

SENATOR FRIESEN: The next proponent who wish to testify in favor of LB576. Welcome. [LB576]

BRUCE RIEKER: (Exhibit 7) Thank you. Senator and members of the committee, my name is Bruce Rieker, B-r-u-c-e R-i-e-k-e-r. I'm the vice president of government relations for Farm Bureau. I'm the third installment testifying this afternoon on behalf of the Ag Leaders Work Group on three different bills, but the Ag Leaders Work Group supports this particular measure by Senator Brewer. The group is made up with the Nebraska Cattlemen, Nebraska Corn Growers, Farm Bureau, Pork Producers, Soybean Growers, and the State Dairy Association. As already pointed out by many testifiers, this caps valuations. We support it because of the intent to compel action. We do not see this as the solution, however, we see it as a tool that could help compel action down the road. And we will work with all of you to help find those solutions. We've been in many conversations with all of you, but wanted to make sure that we're on record supporting this particular measure. [LB576]

SENATOR SMITH: Thank you, Mr. Rieker, for your testimony. Questions for Mr. Rieker? I see none. Thank you for your testimony in support of LB576. We continue with proponents of LB576. [LB576]

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FRANK NOWAK: I don't have any paperwork to finish, I'm just going to do this off the cuff. I've testified before the Douglas County Board. My name is Frank Nowak, N-o-w-a-k. I live at 15432 Dewey Circle, Omaha, 68154. I, too, like Chip have been in real estate business and kind of know what's going on in Omaha, but I haven't been lately but I still do hold the license. When this first came out with the property tax increases, I got on my computer and started checking a few things out in the neighborhood by Westside High School where they had a high jump, which was like 81 percent in an increase in their property tax. And my friend's house, they jumped his up 50 percent. He lives out by Zorinsky Lake. I also looked at the mayor's house and her taxes went up .044 percent, but the house right across the street from it went up 29.1 percent. My house went up 12.6 percent and my land value was like \$4 a square foot, but the house right across the street from me, their land value was at \$1.66 per square foot. So, you know, this is hitting me and I'm thinking, what's going on here that we got this disparity? We're in the same neighborhood and basically all of our houses are the same. Somebody has really messed this valuation up bad when you got the mayor's house, they're only paying a \$200 increase in her taxes and my friend's house right across the street from her is doing 29.1 percent, there's something radically wrong with this. So I think what you need to do is go back and take another look at this situation because it's not good. And I'm on retirement, my wife is retired, and we're looking at Social Security which only goes up like 1 percent or so. We get a house increase of 12 percent, well, there's a little disparity there of about 11 percent. And then my friend with 29 percent, his is even a lot worse if he's living on retirement, which I'm sure he is. He's the same age as I am. We're rather elderly. But there's something wrong in that the city or the property owners have to make up this difference which was bred right here by the uncontrollable spending which you're not paying attention where it can be cut and we shouldn't have to come rescue this place when they get themselves in a jam. I'm sorry. I don't have anybody that come and rescue me when I'm in a jam. So I think it's fair that you support LB576 and give the people a fair shake on their property taxes and tax increases because we just can't afford it. I mean, when we don't have money in our pocket, we don't go out to eat. We don't take in the frills of life, so to say, we have to cut back when we don't meet our budget. So the same thing has to be done here. And you have to start thinking like that because there's a lot of retirees in this state and people that are living like \$500 away from being broke, basically they're living on shoe strings. And I know a lot of them like that and believe me, it's not pretty out there what's going on. Any questions?
[LB576]

SENATOR SMITH: Thank you, Mr. Nowak, for your testimony. Senator Harr has a question for you. [LB576]

SENATOR HARR: Thank you, Mr. Nowak, for taking the time to come down here today. I just want to clarify the record a little bit. The state cannot constitutionally collect one penny of property tax. Those property taxes are paid... [LB576]

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FRANK NOWAK: By the counties. [LB576]

SENATOR HARR: ...counties, school districts, cities. [LB576]

FRANK NOWAK: Which are supposed to meet a 93 percent of market value. [LB576]

SENATOR HARR: Yep. [LB576]

FRANK NOWAK: And in order to achieve that, they have to bump some of these between 85 percent up to that 93 percent. We have a huge disparity in Omaha where the northern section has been given a pass while the people out in the west have been carrying the weight of the inner city, so there's even a disparity going on there. [LB576]

SENATOR HARR: Well, I think the people in north Omaha complain about this, well, because they didn't want their values to go up. [LB576]

FRANK NOWAK: They're at 86 percent of valuation...of market value, excuse me. [LB576]

SENATOR HARR: And I think they complained when it went down by TERC as well. [LB576]

FRANK NOWAK: So they're going to need...and those people basically in that area are going to be probably hurt the worst and they're the most...they're the ones that are the most behind the eightball right now at 86 percent while out in my area we're hitting at 93 percent. We're over the bottom end of that 92 percentile that they like to hit. It would be great if it was 100 percent, wouldn't it? But you can't achieve that, but that 92 percent is the target that they're aiming for. [LB576]

SENATOR HARR: Okay. Thank you. [LB576]

SENATOR SMITH: Thank you, Mr. Nowak, for your testimony. Next proponent on LB576. Welcome. [LB576]

MICHAEL STORM: Thank you, Chairman, members of the Revenue Committee. My name is Mike Storm, S-t-o-r-m, and I'm just a simple farmer. I don't represent anyone other than just my own self. One of the things that I would like to say is that I just came from Omaha and there's a Triumph of Agriculture show over there today. I was speaking to a guy there and he said, you know, he said, one of the things I'm worried about most in agriculture right now is that I'm afraid

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that either my son, grandson, somewhere down the line, is going to have to go to his landlord and say, you know, I'm sorry, I can't pay you that \$750 an acre rent because it's just not in agriculture right now. And that guy is going to look at him and say, well, I'm sorry but, you know, \$710 is what my taxes are on this ground, so I've got to be able to pay not only the taxes but my income tax on that income as well. That's preposterous. We all understand that, but we also understand that the logic behind it is very real because right now we're doing nothing to stop that increase except kicking that can down the road and, well, we've got to go a little bit more because we have to do this. To Senator Schumacher's remark earlier in another testimony he made comment that each acre of land has infrastructure basically that it has to have to be supported and to be valuable and that we have to have a sufficient education system to allow the people to take advantage of the technology and advances that we have today. I agree with you wholeheartedly. I was on the school board for a number of years. We were against our tax levy limit and at that time the price of land was low enough that there wasn't nothing you could do. You just had to live within your limits. What I would respond to Senator Schumacher is that I'm a product of the Nebraska education system through the University of Nebraska-Lincoln with a degree in...a bachelor degree in business. I have a bit of an ego and I consider my education to be excellent. It has taken me a lot of...in a lot of places. I was a member of the United States Marine Corp. I flew combat aircraft in the Marine Corp. I lived in California, Florida, Washington, D.C. I've lived around in different places. I will testify that I believe my education from the University of Nebraska, in the state of Nebraska, is second to none. So I believe that today we are producing against what someone else might have testified, I believe we are producing some fantastic educated people. And so we are doing that today on today's budget. What this bill as I understand it, is not to cut anybody's budget. It's just, stop it right where it is. So if the best we can do is produce the people that we're producing today, I think that's not a...I don't think that's second to anybody. I also refer to a comment that Senator Harr made earlier and he was talking about how his taxable percentages according to what it is in agriculture is actually more and insinuating that actually the homeowners were paying more of the tax burden than what the agricultural people were. To that I would respond, as an example, and I like to go to extremes. So here are farmers out here today and Farm Credit systems which is a pretty large lending system throughout the United States has an Omaha district. In that district of thousands of farmers, they stood up in a conference and said in the portfolio of 30 best customers they have this year, they expect no more than three to even break even. Now, that guy still got to pay his property taxes. Property taxes, for instance, we have a piece of land that has been valued and property tax was less than \$20 an acre. That property tax today in a matter of a few short years is \$70 an acre. And as Senator Friesen said, that has become our largest cost in production agriculture right now. I view this whole thing as the equivalent of the old story about the Air Force paying \$400 or \$500 for toilet seats. Was it a problem that the Air Force didn't have enough money to buy enough toilet seats? No. The problem was the cost. It was the expenditures that was out of line. This is not a hearing about the expenditures but the reality of it is, this is a philosophical question of, are we going to get the entire budget in order or not? I believe that we need to pass LB576. I feel

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guilty coming to support Senator Brewer for riding his mule 500 miles. I rode down here in a car and it was pretty comfortable, so. Anyway, that's all I have. Thank you. [LB576]

SENATOR SMITH: Thank you, Mr. Storm, for your testimony. Appreciate you being here. Next proponent of LB576. Welcome. [LB576]

PAUL VON BEHREN: (Exhibit 8) Good afternoon, Senator Smith, members of the committee. My name is Paul, P-a-u-l, last name is two words, V-o-n B-e-h-r-e-n. The handout that your getting, frankly it's being passed out, you can probably just ignore the first page. It takes a little vetting, I guess, to get down to the point and as I think about this issue, and obviously I'm representing a group at Fremont called WinItBack of about 140 people, but I would expect of the other 1.9 million in Nebraska, there are probably a few people with the same concerns. One of the things I think it's helpful to do is to step back and go to the 30,000 foot level with a problem like we have with property taxes. And I think one of the key points to think about is sales and income taxes, which are the other two legs of the tax stool, fundamentally depend on increase or an increase benefit to the taxpayer before they're paid. If I have bigger income, I can pay more. I can afford the income tax if I can...I can also probably afford something more expensive, it's just more sales tax. But if you think about it, property taxes are a system that we have developed that is totally disconnected from the ability of the taxpayer to pay. The value may not be there but that's based on typically comparable sales, people that have already sold that property or some connected value, but the taxpayer simply doesn't have the ability to pay that just because there's a stated paper value. And I think one of the most interesting things is when you look at the 600 taxing authorities that really goes to the point of the problem. I fully understand that you as senators are not responsible for property taxes. At the same time, if you have ever been to a valuation protest and you look at the entities, the school boards, the NRDs, if you look at the ESUs, the city councils, the county governments, protests have become almost futile. We've actually seen cases where the state assessment people have come in and overruled the county assessor and demanded that they assign a higher value based on one exceptional sale to determine the new value of the property is there. The point is that we're...and let me make one other point. I believe if you think about it, one of the things that has kept us from solving this over the last, what, two decades, is solutions. It's a lot like the political candidate problem. I can keep a whole lot of people divided within a party if I can get them arguing over political candidates. Once the candidate is selected, that's another issue. But if I can keep people arguing over property tax solutions, that's almost the surest guarantee that there will be no solution. And I believe that's a lot of what's happened. So do I have a solution? No. And this bill is not intended to be one. It's simply the recognition of, look, this problem is not going to be solved in the Revenue Committee. It's probably going to have to take a combination of Revenue, Government Affairs, Education, and a whole lot of inputs that you know better than I do. It's a complicated problem and rather than rising up and saying, let's do something fast and let's hurt somebody, no, it just says let's put a pause on this. Let's give ourselves a deadline. Human nature says...and I'm

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a prime example. I don't do many things well or at all until I'm pressed with a deadline and I have to meet it. This is asking the Unicameral to set a self-imposed deadline that would drive resolution. This is a big, big problem. None of us at these tables know how to solve it, but I believe we have enough bright minds in this state that we can probably get this under control but we won't as long as we keep arguing back and forth. And I think one of the surest indications that says, it's not going to be easy to solve is simply that when we ask how are we going to make up the shortfall? Well, that question there is never asked on behalf of taxpayers. The real question is how could we do with less as we expect our taxpayers to do. I can sum this whole recap up if you take a look at that graph on the back of that third page, that's Nebraska Tax Department of Revenue data. And what it simply says, if you look on the left, the smallest increment there, is taxpayer's ability to pay. Revenue...incomes less than \$250,000. Look at the increase in taxation over roughly that same period of time. It's not a matter of shifting the burden, it's not a matter of finding alternative ways of funding, it's a matter of finally acknowledging, look, folks, we're coming to a wall. We're coming to the point where the ability to pay is no longer there in property taxes. I understand the need, but the request from this bill is just for the simple collective intelligence of this body to come up with a real solution. It's doable, it's attainable, and it's just going to take time and we understand that. [LB576]

SENATOR SMITH: Thank you for your testimony. Questions from the committee? I see none. Thank you for coming in today. [LB576]

PAUL VON BEHREN: Thank you. [LB576]

SENATOR SMITH: Next proponent of LB576. Next proponent of LB576. Welcome. [LB576]

FRANK WEBERG: Thank you. The name is Frank Weberg, F-r-a-n-k W-e-b-e-r-g. I am a part owner and designated broker of a real estate company by the name of Pfeil and Associates located in Wausau, Nebraska, up in northeast Nebraska. Been there for 42 years. We sell primarily, almost exclusively farmland, and we manage in excess of 15,000 acres for absentee owners. And we...we're seeing, particularly this year, we're seeing a very difficult time of getting our leases renewed for the 2017 crop year. Part of that is because we have declining markets in both the commodities and livestock and the sale end of it, we're starting...we never use to, certainly when I first started, you never saw much of an issue of real estate taxes being much of an issue when it came to selling property, selling farmland. The reason I am here is because my farm manager was unable to be here, so I'm going to read a letter. This is an example of one of his clients, an absentee client, that has a farm here in Nebraska and it...this is the effect that real estate taxes have on this owner. For 2017 crop year we have seen a significant reduction in market cash rents, typically falling in the 4 to 7 percent range, primarily due to the drastically depressed commodity and livestock prices operators have to deal with. Yet we continually see

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real estate taxes each year while they're...increase while their incomes fluctuate annually. The taxpayers cannot expect to carry the tax burden for the state. A random example is...would be a 240-acre tract that we manage. And the current taxes, the real estate taxes that this owner pays, is nearly 30 percent of her per acre cash rent amount. That's not, certainly considering the income tax that she has to pay for any profits that she makes, but 30 percent of your annual income is a pretty good bite, I believe that all of us would agree with. We're not suggesting anything at this time besides asking you to pass LB576 and give yourself time to come up with a more equitable real estate taxing system. Thank you for your support. [LB576]

SENATOR SMITH: Thank you, Mr. Weberg. Appreciate your testimony today. Senator Schumacher. [LB576]

SENATOR SCHUMACHER: Thank you, Chairman Smith, and thank you for your testimony. You're in a position to kind of maybe convey to the committee from a firsthand basis a little bit of what's going on. What type of rent was a good irrigated piece of land getting per acre before we saw this increase in crop prices in 2010, '11, '12? [LB576]

FRANK WEBERG: Well, it varied on the land and the equipment and stuff, but it wasn't unusual to see, oh, I'd say from \$500 to \$800. [LB576]

SENATOR SCHUMACHER: An acre? [LB576]

FRANK WEBERG: Yeah. [LB576]

SENATOR SCHUMACHER: And then what did it go to when it...right after the land peaked up, or the grain prices went up? What are the...if it was that before grain prices went up... [LB576]

FRANK WEBERG: No, those would be the highs. [LB576]

SENATOR SCHUMACHER: Oh, that...what was it before the high? I mean, back in 2007 or so before the madness started? [LB576]

FRANK WEBERG: Well, I'll tell you where we are right now. That doesn't maybe answer your question but our prices right now, again they vary and that's not...I mean, my business partner is the farm manager. That's something I don't deal directly with, but we're probably talking in the \$400 to \$500 range. We have some that are as low as \$300, again depending on the equipment and the soils that we're dealing with. [LB576]

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SENATOR SCHUMACHER: You mentioned that most of your clientele are obviously landlords. Are they out of state or living in Omaha or Lincoln, or...? [LB576]

FRANK WEBERG: Most of our clientele, the biggest portion of them anyway, are in state. [LB576]

SENATOR SCHUMACHER: In state. [LB576]

FRANK WEBERG: Yeah. [LB576]

SENATOR SCHUMACHER: Are they retired folks, is that the demographic? [LB576]

FRANK WEBERG: Well, you know for 42 years...when I first got into this business, our other partner who is not there anymore, we bought him out, but most of our rents were sharecrop. Then the government, our wonderful ag programs got so complicated that a lot of the people didn't want to do that anymore. They wanted to start cash renting their property so they knew what they were going to be getting. And on top of that, unfortunately like any business, people start getting...doing things that weren't quite legal. Maybe they thought that the end rows were theirs, that wasn't to share, those types of things. All those things added to the fact that we switched over to primarily almost 100 percent cash rents. The other issue, of course, was if the owner did not have crop storage on his farm, he'd have to store his crop at the elevator and that has continued to get more expensive, which I understand, but for the owner it's very difficult to pay that. [LB576]

SENATOR SCHUMACHER: So are the owners retired farmers that once upon a time farmed the land? [LB576]

FRANK WEBERG: Some. [LB576]

SENATOR SCHUMACHER: Or are they heirs that inherited the land or...? [LB576]

FRANK WEBERG: Some of them. All of those. All of those. [LB576]

SENATOR SCHUMACHER: Thank you. [LB576]

SENATOR SMITH: I see no further questions. Thank you for your testimony before us today. [LB576]

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FRANK WEBERG: You're welcome. [LB576]

SENATOR SMITH: (Exhibits 9-27) Next proponent of LB576. We do have letters for the record. Let me read those in and then we'll move to opponents: Scott Brettmann, American Society of Farm Managers and Rural Appraisers; Arlene Luther; Rachel Terry of Lincoln, Nebraska; Lee Todd of Lincoln, Nebraska; Nancy Wissink of Lincoln, Nebraska; Dean Kenkel of Omaha, Nebraska; Vicki Hahn of Omaha, Nebraska; Randy May, Cozad, Nebraska; Peggy Ammon; Nancy Carr of Lincoln, Nebraska; Joe Neuhaus, LIBA; Jeanine Geiler of Omaha, Nebraska; James Sazama of Omaha, Nebraska; Peter Ralston; Gene Kathol of Omaha, Nebraska; Mary Meschede of Elkhorn, Nebraska; Twyla Gallino of Valentine, Nebraska; Marvin Hochstein of Pfeil and Associates; and Susan Gumm of Omaha, Nebraska. Those were letters that were submitted for the record in support of LB576. We now move to opponents, those wishing to testify in opposition to LB576. Welcome. [LB576]

LARRY DIX: Good afternoon, Senator Smith, members of the committee. My name is Larry Dix, L-a-r-r-y D-i-x. I'm with the Nebraska Association of County Officials appearing today in opposition to LB576. It's certainly my understanding there's been an amendment passed out. I do not have a copy of that amendment and so the testimony that I prepared, of course, is to the green copy. So I'll be happy to answer any questions when it comes to that or I'll try to based on what I've heard the previous testifiers of what may or may not be in the amendment. NACO's opposition to the bill comes probably with more questions than answers and it comes from more of a technical point of view. It's certainly a commendable thing to hold property taxes at their same level and as we read the green statement that would mean that property taxes could not increase. We get a little bit tied up in the implementation of that process and if a property tax statement cannot increase over that two-year period of time, we sort of come to the question of, on that property tax statement there are schools, there are ESUs, there are NRDs, there are ag societies, all of the different taxing entities that make up that statement. And if a...let's just say, an ag society were to raise their tax, then someone else would have to lower theirs and we're not quite sure how the coordination would happen so everyone would know who was raising and who is lowering. We think that is going to be very, very problematic when it comes time to actually print out that tax statement. In that also, once we get into County Board of Equalization, and once there are decisions that are made at County Board of Equalization, of course those can then be protested on to TERC. And depending on some of their valuation changes, also when it comes time to get to the budget, we'll have a different valuation number which, of course, can also roll into taxes and then we won't quite know what happens there. The other scenario that we see playing out is if someone's tax statement cannot increase and on January 1 of any given year that's an empty lot, and if someone were to increase or to build a new house on that lot, our reading of this bill is that their tax statement shall not go up. And so, you could actually have a new house, but you would still be paying taxes on the vacant lot because as this reads, it says your taxes cannot increase. So those are some of the things that we're concerned with in the

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green copy of the bill. And so I would be happy to try to address any questions that anybody on the committee would have. [LB576]

SENATOR SMITH: Thank you, Mr. Dix. I think just for some of those that are in the audience that may not have testified before when he refers to a green copy, that is the bill as originally submitted. Then there's a white copy which is an amendment that can be brought into the hearing room and that's what you're referring to that you have not seen the amendment that talks about the valuation. You're referencing the green copy. [LB576]

LARRY DIX: I'm referencing the green copy. Some of the arguments, I believe would be made for if the valuation cannot increase. Some of those same arguments could be made if...I think you still have the issue when we're locking in valuations, some of the complexities of what happens when it does go to a protest or to a TERC hearing, does...if the valuation cannot increase, sometimes we do see TERC, there are some increases that have to be made so that we fall within the range. And so I think that could also be problematic in this situation. [LB576]

SENATOR SMITH: Thank you, Mr. Dix, for your testimony. Questions for Mr. Dix? I see none. [LB576]

LARRY DIX: Thank you. [LB576]

SENATOR SMITH: Thank you. And if I could, just the folks that are in the front row there, if you could...the folks that are in the front row if you could hold your conversations down so that it doesn't interfere with the folks that are testifying at the table. Thank you. Welcome. [LB576]

CHRISTY ABRAHAM: Thank you, Chairman Smith and members of the Revenue Committee. My name is Christy Abraham. Abraham is spelled A-b-r-a-h-a-m. I'm here representing the League of Nebraska Municipalities and we first want to thank Senator Brewer for introducing this bill and the League respectfully needs to oppose it. We certainly are going to testify to the green copy. I apologize. I, too, have not seen the amendment. And I just want to say that the League appreciates all the concerns that were raised by the proponents of this bill and I just want to provide a little bit on the other side. You know, municipalities like households, they have increased expenses too that are often beyond their control. For example, healthcare costs and aging infrastructure. These are things that are always increasing in cost and municipalities are trying to meet those. If property taxes were frozen, cities may need to look at shifting some of their taxes to other things, such as occupation taxes or sales taxes or other sources of revenue. And finally, I would just like to mention, as most of you know, I am new at the League, but I will say of all the city officials I have met, I find them to be very responsive and thoughtful individuals who are really working hard to do what is best for their communities. I don't think

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I've met a single one who relishes raising taxes, but they are committed to their communities and providing key service...key services like fire protection, police, and again infrastructure cost. So I'm happy to answer any questions you might have. [LB576]

SENATOR SMITH: Thank you, Ms. Abraham. Senator Schumacher. [LB576]

SENATOR SCHUMACHER: Thank you, Chairman Smith, and thank you, Ms. Abraham, for your testimony. The state budget action so far, and we are anticipating what we'll have to do is making some pretty deep cuts. If you had to, because the state can't afford to pick up more of the city's expenses or if they did, they're going to have strings attached, tell the cities how to behave themselves as far as what to spend on or not. But if you had to do what the state is having to do, and that is slash the rate of growth and cut spending, where would be the most likely place you would go to cut? [LB576]

CHRISTY ABRAHAM: And I certainly appreciate that question and I know if Lynn Rex was here, she would give you this eloquent speech about how we have budget lids and levy limits, but I mean, certainly I think we would look to cut things that make our cities livable. We would be looking at things like parks and libraries, things like that that would have to be cut. I mean, core services like fire and police, it's very difficult to cut in those areas. [LB576]

SENATOR SCHUMACHER: So what we're hearing basically though from folks saying, look, we've had enough. We don't want any more taxes then and you want... you know, realize there's some creep in the wages you've got to pay to the firemen and the policemen because they've got a family to support too. But given a choice between cutting out the park so that we can deliver that tax relief to the local taxpayer, cutting out the local library, locking her up, are those feasible to do? [LB576]

CHRISTY ABRAHAM: Well, Senator Schumacher, I mean, I think...sure, I mean, I think there are things that can be done. Cities certainly want to be places where people want to live and want to be there, happy to be living there, and I think what you and I may see as, well, maybe you could close the park. Maybe you could close the swimming pool. Maybe you wouldn't have to have these things, but those are the things that really make life more enjoyable to live in the city. And you're right, they're not essential but every city wants to be a place where people want to live and want to be there. And we certainly don't want our cities to be losing population. [LB576]

SENATOR SCHUMACHER: Would it be useful in that decision-making process then that we made it very easy to put on the ballot, shall we or shall we not close the park and in exchange cut so many cents off levy? [LB576]

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CHRISTY ABRAHAM: And I think, you know, a lot of the taxes that cities impose do go to the vote of the people. As you know, the local option sales tax is something that has to be done through a vote of the people. Bond issues are voted on by people. So I think in a lot of circumstances, people are indicating that they want these things. And... [LB576]

SENATOR SCHUMACHER: Do those kind of things fail often or do they more often succeed? [LB576]

CHRISTY ABRAHAM: You know, I think it depends on what it is, but a lot of them are successful because people, you know, want their community to be a good, vibrant, growing community. And I think you actually raise an issue that some of the concerns we heard from cities is, what if we do have a voter approved bond issue, how is that going to work if property taxes are frozen? I mean, how is that going to be considered? So that's another issue. [LB576]

SENATOR SCHUMACHER: Thank you. [LB576]

CHRISTY ABRAHAM: Thank you. [LB576]

SENATOR SMITH: Senator Groene. [LB576]

SENATOR GROENE: So if you're so dire in need for taxes, why do you TIF everything? [LB576]

CHRISTY ABRAHAM: Oh, Senator Groene, I knew you were going to ask that question. (Laughter) [LB576]

SENATOR GROENE: That's seventy million last year. [LB576]

CHRISTY ABRAHAM: And again, as you and I have talked about TIF, this is something where the developer who is developing that piece of property is paying the property taxes. And for a certain amount of time, you know, up to 15, but most projects last 7 or 8 years, yes, that property tax is given to the cities to improve that piece of property to infrastructure or other things to help improve that. But in the end, the property tax actually will be much greater and will benefit all those political subdivisions. [LB576]

SENATOR GROENE: Well, we're talking about crisis right now. You said you had a crisis, so. And are you sure the city takes that money and improves it, or do you give it to the developer to

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offset his cost putting in his curbs and his street and his water mains and stuff and put in his parking lot that is normally an expense of a developer? [LB576]

CHRISTY ABRAHAM: Well, Senator Groene, I think different cities do it different ways. It is...some cities do it through bond issues, some don't, but the property tax has to be used for a public purpose. [LB576]

SENATOR GROENE: If these poor children are going to lose their swimming pool, would you recommend to the city to cut their dues to the League of Municipalities first or would they take away the swimming pool from the children? [LB576]

CHRISTY ABRAHAM: Well, we certainly think the League of Municipalities is very important. We think it's all important, Senator Groene, and I don't...I don't mean to imply in any way to this committee, or to be flippant in any way about parks and swimming pools and anything like that. I mean, I think those are all very important pieces of... [LB576]

SENATOR GROENE: Do you know of any cities since Affordable Care Act that has cut their benefits, their health insurance, and increased their deductibles, increased their copays? Or do you think the taxpayer is just going along for the ride, the expense? All those taxpayers have probably cut their...increased their copays, increased their deductibles. [LB576]

CHRISTY ABRAHAM: Yes, and Senator Groene, I'm happy to get you more information on that and I can only think of a couple of examples in my head, so I don't want you to think this is broadly,... [LB576]

SENATOR GROENE: All right. [LB576]

CHRISTY ABRAHAM: ...but yes, it's my understanding that cities are reworking their healthcare plans to do things like increase deductibles and have their employees pay more of those costs. [LB576]

SENATOR GROENE: But there are methods, you know, free market system to cut costs without cutting services. Businesses do it all the time. [LB576]

CHRISTY ABRAHAM: Yes, and cities do them, too, Senator Groene. [LB576]

SENATOR GROENE: All right. Thank you. [LB576]

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CHRISTY ABRAHAM: Thank you. [LB576]

SENATOR SMITH: Thank you, Ms. Abraham, for your testimony. [LB576]

CHRISTY ABRAHAM: Thank you so much. [LB576]

SENATOR SMITH: Next opponent of LB576. Welcome back, Mr. Cheloha. [LB576]

JACK CHELOHA: Thank you. Good afternoon, Chairman Smith and members of the Revenue Committee. My name is Jack Cheloha, the last name is spelled C-h-e-l-o-h-a. I'm the registered lobbyist for the city of Omaha. I want to register our lack of support or opposition, if you will, to LB576 this afternoon. First of all, once again I haven't seen the white copy or the amendment offered to you. I've only analyzed the green sheet, or the green copy, if you will. It seems to me that the bill at best is probably impracticable and at worst, it's probably unconstitutional. The former means essentially what Larry Dix testified to as to implementing the bill, how would you freeze it, how do you calculate amongst various taxing entities, etcetera. In terms of unconstitutionality, you have your uniform and proportionality clause of the state constitution and with that, there's guidelines in terms of valuing property, etcetera. Another example that was given to you, for instance say someone built a new home on an existing piece of real estate. This bill wouldn't be able to take that into account, therefore it wouldn't be uniform and proportionately taxed to absolutely freeze it. Some other points I wanted to make to the committee is, I think, you know, the Nebraska state government should give itself more credit. You know, we've reformed our tax system on a number of times. In fact, through the late '60s and '70s, we took off a number of items from the property tax levies, you know, business inventories, livestock, etcetera, along those lines. Then if you jump ahead to the 1990's, the Legislature passed various lids on levy bills. Right now local governments can only increase their revenue sources by 2.5 percent on an annual basis. With that, also the Legislature has now implemented an appropriation where you flat-out pay people's property taxes on a percent basis. I think we're up to...I forget what the number is now whether it's \$220 million. So the Legislature has done a significant amount of work relative to property taxes, not that I'm not sympathetic to what the proponents of this bill had said. And also where I am a city of Omaha employee, I have sat through 22 years of budget hearings and I know first and foremost that our elected officials are very mindful of the property tax. They listen to their constituents. In fact that's almost always their number one concern relative to budget is what effect will this have on the property tax. And so, the reason why we would oppose a freeze, if you will, is we do have costs that increase as we go along. We have to negotiate wage contracts with our various unions. Healthcare costs have grown by double digits over the last decade. You know, simple things for the price of asphalt for doing pothole filling, etcetera, has increased exponentially and it ebbs and flows with the price of crude oil, if you will. So what's that...I mean, like even in a household if I'm, you know,

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balancing my budget, I know that, gee, sometimes the producer needs an increase on their box of cornflakes, etcetera, because the production costs have increased. I think cities have been responsible. They're mindful of property tax. They represent their citizens to the best of their ability and they listen to them and for all of these reasons I've tried to articulate, I think LB576 is a bill that's probably not ready to be advanced and we would oppose it. I'll try to answer any questions. [LB576]

SENATOR SMITH: Thank you, Mr. Cheloha. Senator Schumacher. [LB576]

SENATOR SCHUMACHER: Thank you, Chairman Smith. Thank you, Mr. Cheloha. If you got one of those letters that said, you got to cut your expenses 5 percent, that's the way it is, where would you cut? [LB576]

JACK CHELOHA: I think by trying to answer that question, I would have to look back over my 22 years with the city where we have run into some tough times where sales tax revenues have decreased, property values have been stagnant or even decreasing, and with that we've tried to cut it and balance our budget by eliminating flat-out positions. We've lost a number of civilian workers over the past decade. We've diminished hours relative to some city services whether it be hours of operation for city pools, city libraries. These are services that the citizens demand but yet at the same time we've had to, you know, cut our budget. And if we were forced with something like that again, I imagine we would probably go back to those wells again. [LB576]

SENATOR SCHUMACHER: Thank you. [LB576]

SENATOR SMITH: Senator Friesen. [LB576]

SENATOR FRIESEN: Thank you, Chairman Smith. Mr. Cheloha, does the city at all keep track of...I mean, you follow the property tax issue really closely, but I know cities versus counties, counties have very little access to other revenues. Cities have access to a lot of other fees, wheel taxes, those types of things. Does the city keep track of the increase and overall taxing authority that you use to fund your overall project versus the property tax portion? You know, at one time property taxes may have furnished 75 or 80 percent of all your operating revenues. Is that...would you say that ratio is the same or has it changed? [LB576]

JACK CHELOHA: Well, because of the local option sales tax it would not be that high. Now, I think when we do budgeting on the annual basis, we try to use the three-stool aid proposition, if you will. A third property tax, a third sales tax, and then a third other sources of revenue, fees, etcetera. And so we try to be mindful of that and that's... [LB576]

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SENATOR FRIESEN: Do you feel guilty at all that I have to give you that 1.5 percent? [LB576]

JACK CHELOHA: (Laugh) When you're free to come in the shop and go to our restaurants, and... [LB576]

SENATOR FRIESEN: Thank you, Mr. Cheloha. [LB576]

SENATOR SMITH: Senator Groene. [LB576]

SENATOR GROENE: So, Senator Friesen made a good point. You're just taking a small cut on a third of your revenue. [LB576]

JACK CHELOHA: If this bill would pass, is that what you're saying? Yes, sir. Yes, sir, it would be a freeze of the property tax. [LB576]

SENATOR GROENE: There's a lot of entities that survive completely on property tax. They're not here. I haven't seen them, so you guys couldn't adjust to just a small freeze on one-third of your total income? [LB576]

JACK CHELOHA: Well, I think part of the reason I'm here is for educational background on the bill itself. And if you, you know, offer the city's input relative to this broader discussion of property tax so that's why I'm here. Maybe we'll hear from schools and NRDs. I don't know who else is here yet. [LB576]

SENATOR GROENE: We might. I guess we could. We're early in the opposition. All right, thank you, sir. [LB576]

JACK CHELOHA: Yeah. [LB576]

SENATOR SMITH: Very good. I see no further questions, Mr. Cheloha. [LB576]

JACK CHELOHA: Thank you very much. [LB576]

SENATOR SMITH: (Exhibits 28-31) Thank you for your testimony. Next opponent of LB576. I see no further opponents. We do have letters for the record that is submitted in opposition: Lynn Rex, representing League of Nebraska Municipalities; Mayor Douglas Kindig, representing United Cities of Sarpy County; Brandon Kauffman, city of Lincoln; and Mark Adler,

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representing Ralston Public Schools. And again those were submitted for the record in opposition to LB576. Do we have anyone wishing to testify in a neutral capacity on LB576? Seeing none, we invite Senator Brewer to come back and to close on LB576. [LB576]

SENATOR BREWER: Thank you, Mr. Chairman. Well, let's backtrack just a little bit to the most recent testimony here. Obviously without the amendment, the needed information wasn't there for him to make the statements he did. The reason we moved it to the right was upon the recommendation of the Attorney General and a number of lawyers so that it was legally sound. So, I would ask that you focus on that amendment because that's the piece that's going to be key for this. We can rehash numbers, we can do a lot of things. It's been a long day. I think what we need to focus on is, there's a lot of concerned citizens, not near as many as there are that were here today, but we've also asked some of them that came today to represent others, much as Bruce did with Farm Bureau and many others. It's a broad spectrum of people. It isn't one group that's angry. I think that this discussion has got to get a chance to go to the floor and be heard because if not, the perception that's going to be given to folks is that we don't care and that this isn't important. And if that is what goes back and the passion to have this petition ballot gets a storm rolling with it, as you know many of these do, and if they're angry it doesn't take much to motivate someone to sign a petition. And then all of a sudden we're in a position where we are boxed into the corner we can't get out of. So I would ask today that you again look at the bill and advance it to the floor. And I'm ready for questions. [LB576]

SENATOR SMITH: Thank you, Senator Brewer. Senator Harr. [LB576]

SENATOR HARR: Thank you, Chairman Smith. Senator Brewer, we advance this to the floor, it's not going to be heard this year will it? [LB576]

SENATOR BREWER: Well, without a priority it probably would not with the time that we have left. [LB576]

SENATOR HARR: And you didn't choose to prioritize this? [LB576]

SENATOR BREWER: Well, I just had the one and that one I focused on with the veterans, so I did not. [LB576]

SENATOR HARR: You got as many as I did. [LB576]

SENATOR BREWER: I know, but that's why I didn't as I had to make a decision on that. [LB576]

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SENATOR HARR: Thank you. [LB576]

SENATOR SMITH: Senator Schumacher. [LB576]

SENATOR SCHUMACHER: Thank you, Chairman Smith. Thank you, Senator, for bringing this. It has spurred a good discussion. You keep referencing a petition. Is there a petition been drafted, filed, anything like that? [LB576]

SENATOR BREWER: There are a number that I have seen and later I can show you the one that I have. There is a move afoot to do that if they...I think the time is, you know, the coming election so there's some time before that. But the concern is that if the Legislature doesn't have a desire to move forward and then if they see their property taxes go up, I think there will be a break point where they will push it forward just as a way to try and have their voice heard. And, you know, so much of the state is so far from here that they don't get a chance to come and testify. So, that's their way, I guess, of having their voice heard. [LB576]

SENATOR SCHUMACHER: Thank you. [LB576]

SENATOR SMITH: Senator Brasch. [LB576]

SENATOR BRASCH: Thank you, Chairman Smith, and thank you, Senator Brewer, for introducing this bill. I understand, I can relate. We know there's the property tax crisis at hand and because it's late in the session and it doesn't have a priority, is there any movement to not take this to the Legislature but to take it to the local taxing entities, to put a pressure point there somehow where the taxes are spent. [LB576]

SENATOR BREWER: Well, understand that we'll go back to the beginning of my testimony where I talked about some of the challenges of being 40-some days into this and, you know, those first ten days trying to put together a bill that addressed the concerns. And that, you know, those concerns came from such a large area for me because of the 13 counties and the sheer volume of the area that I have, but many...I mean most that testified here today were from eastern Nebraska. They were representing organizations across the state. I believe that this concern and this passion runs so wide across the state that, yeah, I mean that...I'm not going to deny that that isn't a part of what this needs to be, but I think the eyes are on the Legislature right now and what we do is going to tell them how they need to react and move forward. This bill represented what they asked me to do and I really took it to heart that if that is what they think is necessary for them to feel like they have a voice, then that's...I'm their conduit. So I would agree with you that that is where it has to start with the counties, but right now I think we owe it to the taxpayers to

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show more passion for them than the ones that are wanting to spend it and want to complain about not having enough to spend. [LB576]

SENATOR BRASCH: And I would argue that they don't want passion, they want results. [LB576]

SENATOR BREWER: I would agree with you, you are right and I am wrong. [LB576]

SENATOR BRASCH: Okay. Thank you for introducing this bill. [LB576]

SENATOR SMITH: Senator Groene. [LB576]

SENATOR GROENE: Senator Brewer, if we passed it, put it on the floor, it would be there, would it not for next year and you could prioritize it right off the bat next year? [LB576]

SENATOR BREWER: And I would. [LB576]

SENATOR GROENE: And you would. We're a democracy, right? [LB576]

SENATOR BREWER: Yes, sir. [LB576]

SENATOR GROENE: If we cut...if we tell our elected officials we're going to give them less money, we would expect them to make do, right? [LB576]

SENATOR BREWER: Yes, sir. [LB576]

SENATOR GROENE: And if they didn't make do, would we reelect them to the city council or county commissioner? [LB576]

SENATOR BREWER: I would guess your chances would be slim to none. [LB576]

SENATOR GROENE: So you think the governments...the local governments should tell this body and the people what our tax system should be? [LB576]

SENATOR BREWER: Well, I think that they have to have input in what that final piece looks like because I think they're willing to accept the fact that the people in this room and the people

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in the body understand the moving parts and piece and dynamics of everything to shape that final product. They just want to have a peace of mind that there's a passion to move on the issue of property taxes. [LB576]

SENATOR GROENE: What I'm asking, we all work for the people. [LB576]

SENATOR BREWER: Yes, sir. [LB576]

SENATOR GROENE: If they say we're only going to send you so much money, then the rest of us do what as elected officials? We work with that money. [LB576]

SENATOR BREWER: You use what you have. [LB576]

SENATOR GROENE: Thank you. [LB576]

SENATOR SMITH: I see no further questions. Senator Brewer, I want to just clarify for some of the folks that are here and testifying, maybe for the first time, what a priority means. A priority just means that a bill gets preference status on the floor and each senator is given one priority and that doesn't mean that's your only passion. You've got a lot of passions and you been a really strong, important voice for veterans and that's what you chose to be your priority bill this year. That doesn't mean you're not passionate about this bill. [LB576]

SENATOR BREWER: Yeah, but I am a little bit committed now for next year. (Laughter) [LB576]

SENATOR SMITH: Yeah. All right. Very good. Thank you, Senator Brewer. That's a closing on LB576. And I'm going to allow the room to transition here for just a moment while we get ready for the next bill. [LB576]

BREAK

SENATOR SMITH: Next bill. We were able to kind of transition the room, and we're going to begin our hearing on LB599 to be introduced by Senator Groene. It relates to exempting certain improvements on land from taxes as prescribed. [LB599]

SENATOR GROENE: (Exhibits 1-2) Thank you, Chairman Smith and members of the Revenue Committee. LB599 establishes that improvements on land of new infrastructure, redevelopment,

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or new construction intended for business or housing purposes be considered business inventory until the property is occupied, sold, or leased. The State Constitution exempts business inventory in Article VIII, Section 2 (8). LB599 would further expand the definition of business inventory in state statute. For a developer property improvements are not intended for personal use, but to them it is their inventory. As an automobile dealership is not charged property tax on their inventory, but instead is later assessed on the end user, property taxes would not be levied against the developers inventory until it is occupied, sold, or leased and paid thereafter by the consumer. The base property taxes on the land under improvement would still be collected. The further increased property taxes created by the development would be available earlier than tax incentives such as tax increment financing. State economic development programs look to provide economic incentives to business to create jobs and expand the tax base, alleviating the property tax burden on the development inventory should incentivize developers...development investment and lower the cost of new home ownership. I believe we gave you a handout. I think we were supposed to, of the Constitution. In Article VIII, Section 2 (8), Legislature may exempt inventory from taxation; the Legislature may define and classify personal property in such manner as it sees fit whether by type, use, user or owner, and they exempt any such class or classes of property from taxation if such exemption is reasonable or may exempt all personal property from taxation. That's what we are doing. We're adding into statute the definition of new development as inventory, just as the lumberyard doesn't pay on the 2x4 because if it's inventory, the contractor doesn't pay property taxes when he rearranges those 2x4s into his inventory. It's still inventory. Also we passed out Department of Revenue's rules of what personal property exemptions are. In 005.01A inventory is defined as goods held for sale or resale in a manufacturing--we call that a contractor--merchandising, or agricultural business where the production, sale, or purchase of property is in the ordinary course of their business. To a developer, to a contractor, when he puts in ten lots and risks his capital, builds a couple of spec homes on it, that's like Walmart, the loaf of bread on the shelf to him. That's his business inventory. He, that developer, it's not small amounts of money. If a developer builds a spec house, which they do, and especially in rural Nebraska, you put in ten lots in a small town and you might be sitting on those for ten years. He'll sell a house now and then, but that lot all of a sudden becomes thirty to forty thousand instead of three thousand of farm ground. You're paying property taxes on that even though it's your inventory. So if you take a...developer risks his capital, invest, and puts a couple of spec houses on it, \$200,000 house, \$50,000 lot, \$250,000. In some of the SIDs and urban areas, the mill levies are getting up there around 2.5, 2.7 with all the fees and things, you're talking six grand. So now he sits on that he's paying cost of his inventory, 2 to 3 percent. So guess...we talk about high housing cost in Nebraska? So now he's got that \$200,000 house, he's got to put it on the market for \$206,000 next year to recover that \$6,000. But then he also has that expenses on those other lots that are sitting empty, he can't recoup those ten years from now. He's got to try to start recouping that now. Now that house becomes \$230,000, or \$240,000. When I caught this and was looking at ways to get the crony capitalism out of elected officials at cities giving TIF to those who can afford the right to give enough

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money to the candidates for office, or who can afford the lobbyist, and I thought of the small contractor, well, how do we keep government from picking winners and losers with TIF and Advantage Act and then I thought how do we not now start exempting work force housing where a developer comes into North Platte and puts in 20 to 30 houses and in 15 years he's got a 30 percent price advantage over the small contractor who puts in two to three houses. Within a decade we will not have small contractors. How do you do that? Treat everybody the same. If you're willing to invest in inventory as a capitalist, we should not be taxing your inventory. That's what LB599 does. So anyway, I'll leave it at that and I'm not a lawyer, but I can read a constitution and statutes and I think this is about as solid as you can get. I don't know why we've been taxing them all these years for their inventory. Thank you. [LB599]

SENATOR SMITH: Thank you, Senator Groene, for your opening on LB599. We now...don't see any questions at this point in time. [LB599]

SENATOR GROENE: Not even Paul? [LB599]

SENATOR SCHUMACHER: I'm waiting for the end. [LB599]

SENATOR SMITH: We move to proponents of LB599, proponents. Welcome. [LB599]

BOB HALLSTROM: (Exhibit 3) Chairman Smith, members of the committee, my name is Robert J. Hallstrom, H-a-l-l-s-t-r-o-m, and I appear before you today on behalf of the Nebraska Bankers Association in support of LB599. It's pretty obvious that one of the issues that we have in rural Nebraska in terms of developing work force housing is the fact that developers put a significant investment of their own capital into these projects and in cases where the taxes may go up before they have an opportunity to sell lots, sell houses, and realize any cash out of the situation. That is a hardship for them and it makes it more difficult to have those houses constructed in rural Nebraska. LB599 is similar in concept to LB251, which was heard earlier this session by the Revenue Committee. However, this goes a step further. It's a broader approach in terms of also looking at the housing as business inventory that would be exempted until sold or leased or otherwise as provided in the bill. So we think this is a positive change in our laws and we would support it and I would be happy to address any questions that you might have. [LB599]

SENATOR SMITH: Thank you, Mr. Hallstrom. Senator Schumacher and then Senator Friesen. [LB599]

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SENATOR SCHUMACHER: Thank you, Senator Smith. Thank you, Mr. Hallstrom. Given a choice, the choice is we eliminate TIF and we do this. Take the deal? [LB599]

BOB HALLSTROM: Probably not, Senator Schumacher. [LB599]

SENATOR SCHUMACHER: Thank you. [LB599]

SENATOR SMITH: Senator Friesen. [LB599]

SENATOR FRIESEN: Thank you, Chairman Smith. Just initially reading the language that's in the bill, would it be possible for me to take some farm ground and improve it, take out some trees, maybe drill a well, get it ready for sale, but hold it in inventory and not be taxed on those improvements? Is this just for business or housing purposes? [LB599]

BOB HALLSTROM: Yes, I mean that would be the limiting of the business aspect depending upon what you're going to use it for, Senator. I'd probably have to mull that over more and I'd hate to blurt out an answer without giving some more thought to that. [LB599]

SENATOR FRIESEN: All right. Thank you. [LB599]

SENATOR SMITH: I see no further questions, thank you for your testimony. Next proponent of LB599. Welcome back, Mr. Young. [LB599]

JOSEPH YOUNG: Good to be here. Chairman Smith and members of the Revenue Committee, my name is Joseph Young, J-o-s-e-p-h Y-o-u-n-g, here representing the Nebraska Chamber of Commerce and Industry today in support of LB599. And I think Senator Groene laid it out beautifully. I was actually part of a Nebraska Bankers Association task force on housing this last interim and I guess up to now and we heard from a lot of communities about how much they're struggling with spec homes and a lack of adequate housing for their work force, which is our members' biggest concern recently in the last several years. And North Platte, actually, had a cool idea that they called a Shot in the Arm program where they were able to round up some private money and some public money and give developers grants of about \$8,000 if they would build spec homes because there was such a need and a lack of developers building housing. And that really kind of spurred a lot of housing growth in North Platte and it dawned on me...I was surprised to hear it the first time because \$8,000 amount per house. I mean, that doesn't seem like it would incentivize anybody doing anything, but it really did and I think they're building upwards of 50 or 70 houses now because of that program. And this, I think this program would do almost the exact same thing. It would allow a developer to build a house and not take on the

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risk of not selling it where they'd have to pay \$3,000, \$4,000, \$5,000 per year in property taxes. So I think this is...well, maybe not seem like a big deal, I think it would be a really big deal all across the state of Nebraska especially in the Third District where they're suffering from such housing shortages. So with that, we wanted to be on record today in support and I'd be happy to take any questions. [LB599]

SENATOR SMITH: Thank you, Mr. Young. I see no questions. Thank you. [LB599]

JOSEPH YOUNG: Thanks. [LB599]

SENATOR SMITH: Next proponent of LB599. Welcome. [LB599]

KORBY GILBERTSON: Good afternoon, Chairman Smith, members of the committee. For the record, my name is Korby Gilbertson, spelled K-o-r-b-y G-i-l-b-e-r-t-s-o-n. I'm appearing today as registered lobbyist on behalf of the Nebraska Realtors Association. The Nebraska Realtors Association strongly believes that adequate housing should be a priority. As of last year, home ownership in United States had fallen to a 50-year low and although according to a National Association of Realtors survey, 87 percent had reported that home ownership was part of their American dream, only 63 percent of households were actually home owner occupied. In outstate Nebraska we have a shortage of work force housing that needs to be addressed so that we can build our economy. As Senator Groene stated, for developer property improvements are not intended for personal use but to them it is their inventory. It makes sense that property taxes should not be levied against a developer's inventory until it's occupied, sold, or leased and paid thereafter by the consumer. Home ownership benefits the state in many ways. With each home sale there are expenditures related to landscaping, home remodeling, new furniture, mortgage origination, moving, and an inducement to build new homes. Some portions of these earned incomes subsequently get spent in the local economy, what economists refer to as the multiplier effect in the form of eating at restaurants, spending money on local goods and services. According to calculations done by the National Association of Realtors one new job is supported from every two home sales. This is real economic development. The Nebraska Realtors Association believes that LB599 is a step in the right direction and will increase development, investments, and benefit the overall economy of Nebraska. I'd be happy to take any questions. [LB599]

SENATOR SMITH: Thank you, Ms. Gilbertson. I see no questions. Thank you. [LB599]

KORBY GILBERTSON: Thank you. [LB599]

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SENATOR SMITH: Next proponent of LB599. Welcome, Mr. Mueller. [LB599]

WILLIAM MUELLER: Thank you, Senator Smith. Senator Smith and members of the committee, my name is Bill Mueller, M-u-e-l-l-e-r. I appear here today on behalf of the Eastern Nebraska Development Council and the Nebraska Association of Commercial Property Owners to express our support of LB599. I was going to kid that Senator Groene took our idea and introduced it. Well, he didn't. It was his idea and we support it. We do believe that housing should be taxed as a business inventory until it is sold and we support the bill and would ask that you advance it. [LB599]

SENATOR SMITH: Thank you, Mr. Mueller. [LB599]

SENATOR GROENE: I'm not supposed to be sitting here. Should I move? [LB599]

SENATOR SMITH: You're fine, Senator Groene. [LB599]

WILLIAM MUELLER: You just can't ask any questions. (Laughter) [LB599]

SENATOR SMITH: Senator Groene, I think that was a compliment. [LB599]

WILLIAM MUELLER: It was. He wants to grill me except it occurred to him that I'm supporting his bill. [LB599]

SENATOR SMITH: Well, any questions for Mr. Mueller? I see none. Thank you for your testimony. [LB599]

WILLIAM MUELLER: Thank you. [LB599]

SENATOR SMITH: (Exhibits 4-5) Other proponents of LB599? We do have letters for the record in support of LB599: Jason Esser, representing Nebraska Economic Developers Association; and Gary Person, representing North Platte Area Chamber of Commerce. Those letters were sent for the record in support of LB599. We now...anyone wanting to testify in opposition? We welcome opponents of LB599. Welcome, Mr. Dix. [LB599]

LARRY DIX: Good afternoon, Senator Smith, members of the committee. My name is Larry Dix, L-a-r-r-y D-i-x. I'm appearing today in opposition to LB599. And first I want to say, I want to thank Senator Groene for bringing this because of the issue of a lack of housing in the rural

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area. We recognize that is a problem and we want to deal with that, but as the language is written in the bill, we want to go through just a little bit of that and maybe we can tighten a few things up. And when we look at this, a lot of people are looking at housing in a single house, but the way the bill is written this is also written and I believe it would cover large multifamily pieces of property, multimillion dollar pieces of property. And so if someone were to build something of that nature, say, 100 units, one of the things that we would want to look at within the bill is some type of indication to determine when it becomes taxable. Right now it says until occupied, sold is clear, leased is somewhat clear, but on some of these major, major structures, portions of it could be completed and leased but they're still building on the other end of this large complex. And so we're trying to figure out what triggers when that property actually goes on the tax roll, because as I read it, it just says until occupied. So does that mean that one...as soon as one person moves in, even though the rest of it is not complete and they may have another 100 units and I'm sure Senator Groene will address that, you know, in his closing. The other component of that is I think by...we want to just make sure in other sections of statute because by definition this is going to be classified as real estate because this is something that is permanently attached to the land. So by definition it will be real estate. So now we're sort of calling real estate personal property. So I think we want to make sure we're clear and see if there are other sections of statute that we have a conflict because I think by definition alone, there will be a conflict there that we want to look at. The other thing we assume is if the bill passed, all of these would be...would probably be...a majority of them it would make a lot of sense to somebody to sell these on January 2nd because you could get that piece of property just to where it isn't quite complete on December 31st and we have to go by what's there January 1st and January 5th that thing could be sold, whereas, right now, at least that goes on the tax roll. And I know Senator Groene wants to be fair to all of the taxpayers, but that does create a little bit of a loophole that it wouldn't take long I don't think for people to understand that and especially if you're building a sizable amount of these. But certainly in the end, we appreciate Senator Groene bringing this because there is a problem in the rural areas. My other question that I can't go without asking and Senator Groene will probably address this. If one of these properties are TIFed and they fall under this criteria, I would just want to make sure that we have a clear understanding of how those are handled from a taxing point of view. And with that, I'd be happy to answer any questions that you would have. [LB599]

SENATOR SMITH: Thank you, Mr. Dix. Questions for Mr. Dix? Senator Schumacher. [LB599]

SENATOR SCHUMACHER: Thank you, Chairman Smith. Thank you, Mr. Dix. Any idea of how much this is going to cost counties, or I guess all local government? [LB599]

LARRY DIX: Yeah, it would be across all local governments. I don't know, I mean, I don't have a feel for high many of these projects there are. You know there's a benefit on one side, there's a...I guess, you're slowing down the growth of a tax base on another. Eventually, this property

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hits...becomes a part of the tax base once it's occupied and leased. So, you know, you may lose that revenue...you may lose that valuation for maybe a year. In some of the bigger projects you could lose it for three or four years. [LB599]

SENATOR SCHUMACHER: But during that time, I mean, the property tax is one thing but you've got your investment, your money tied up in a house. If you build too much ahead of time, you risk it for vandalism and have to keep it heated in the winter or drain the pipes, all of that. So I guess I'm questioning how many of these, particularly rural areas where this housing issue is a little bit of an issue, how many of these houses would actually be able to take advantage of this provision, or why would a developer want to have his money tied up much ahead of time. [LB599]

LARRY DIX: That I can't answer. I don't know. [LB599]

SENATOR SCHUMACHER: Okay. Thank you. [LB599]

SENATOR SMITH: Other questions? I see none. Thank you, Mr. Dix. [LB599]

LARRY DIX: Thanks. [LB599]

SENATOR SMITH: Other opponents of LB599? Seeing none, anyone wishing to testify in a neutral capacity on LB599? Seeing none, we invite Senator Groene back to close on LB599. [LB599]

SENATOR GROENE: Thank you, Chairman Smith. Senator Friesen, if you own the land, you occupy it. If you farm it, you occupy it. If you want to let it to set idle and avoid taxes, it might come to that. (Laughter) [LB599]

SENATOR FRIESEN: Might be for sale. [LB599]

SENATOR GROENE: But a lot of homes are built contract, they're already sold by design. That's already sold, so that house would be immediately taxed. Walmart comes in and builds a new structure, they already own it. It's already sold. Apartment complex, developer comes in and builds it, once he rents it, he has occupied it. I think that would be common sense. He's occupied the business. I'm not sure how strip malls work, but I'm sure that's just one developer who builds it, owns it. Once he starts occupying, he owns it. Once he starts renting it, he owns it. That would be common sense. This just makes sense. I mean, we've made exceptions...as to senator...I mean as to...I'm going to start calling him senator. He hangs around as much as I do, Larry Dix. Most

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of our statutes in property taxes and how we define them, Department of Revenue does it. I could start reading you a lot of regulations coming from the Department of Revenue, personal property exemption that you would think was a statute. "Inventory shall include personal property owned for purposes of leasing or renting for financial gain only when the items are of a type which in the ordinary course of business and leased or rented for a period of 30 days or less...the item may be returned at the option of the lessee or renter at any time...005.01C Items of personal property held for lease or rental or in possession of the lessee..." We didn't write that. This body did not write this. The regulators at the Department of Revenue defined all of these terms. They will define the parameters around LB599. Small contractors will build a house to keep their employees employed. They will do it. Banks...some of the banks still hang with them, loan them the money. I've talked to contractors that built a couple of houses, hung it all out there knowing that the railroad would hire again in North Platte. Five, six thousand dollar hit on them when the property tax statement comes is a big chunk of money. They have to pass it on to the homeowner. I would think this would help Omaha and Lincoln, too, and the bigger urban areas that somebody comes in and they right away develop 10 lots, 30 lots, 40 lots because they know they're not going to get hit. Those lots in those areas are up to \$100,000, some of them. That's \$3,000 apiece if you put 15 to 20 lots in, that starts...they...I would think the property tax would be enough incentive to say, I'm not going to develop until I have to. So anyway, I just thought it was a good way, a good start to keep a fair playing field for everybody where a developer can worry about building instead of worrying about hiring lobbyist and lawyers to try to get around or to gain an incentive program when he can just do what he does best and build. So thank you. [LB599]

SENATOR FRIESEN: Thank you, Senator Groene. Any questions from the committee? Senator Groene, I have a couple. (Laughter) Come on, come on guys. Entertain me. So I agree with you. I would like to see this program especially in the smaller communities where somebody is, you know, in the smaller communities willing to build a couple of spec houses, to put their neck out there, it's a big deal. But you get into the big subdivisions around Omaha and Lincoln where they'll take several large areas and, you know, start working on it immediately and they work from one end to the other and there's going to be some homes probably completed right at the beginning and as soon as they're occupied, you say they'll be taxed. But let's...when I look down the road a little bit and if the housing market slows down, they could easily have 30 to 40 homes out there that are stuck in limbo, so to speak. And I get that portion where they shouldn't have to pay on inventory but at the same time, I look at it, they're still going to require police and fire protection for those properties. They're still going to want snow removal from the roads. Should they pay some? [LB599]

SENATOR GROENE: They will on the land. [LB599]

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SENATOR FRIESEN: I'm asking...yeah, but I'm...if it was not developed there would be no snow removal, there would be no police and fire protection required to protect an investment there. [LB599]

SENATOR GROENE: Menards doesn't on millions and millions of dollars of inventory and Walmart doesn't on millions of dollars of inventory and they need police. [LB599]

SENATOR FRIESEN: Yeah, but they're paying on their structure, not paying...I'm just asking the question. [LB599]

SENATOR GROENE: Health insurance. It's inventory. [LB599]

SENATOR FRIESEN: They are going to require some services because of that. The car dealership really doesn't require any more if he has no cars over there versus a bunch of cars. [LB599]

SENATOR GROENE: If they came to me...they used to do cattle, property tax on cattle. And if grain markets down to \$2 and you got, an elevator is full of grain, should we tax that? That's inventory. I don't think you could talk to a developer who thinks that that house is his personal property. I mean as his dwelling it's... [LB599]

SENATOR FRIESEN: That's fine. I just had to ask the question because I...you know, whether that car dealership has one car or a hundred cars, the service to him is going to be the same. [LB599]

SENATOR GROENE: And he needs a lot of police protection from vandals and stuff and he doesn't pay on his inventory. [LB599]

SENATOR FRIESEN: I think if we can get rid of the TIF on residential development, this should make a big difference. [LB599]

SENATOR GROENE: Help me with the filibuster. [LB599]

SENATOR FRIESEN: I appreciate that. Any other questions from the committee? Thank you, Senator Groene. With that, we will close the hearing on LB599 and will close the hearing for the day. [LB599]