

the bottom half.

SENATOR BEUTLER: Senator Landis, excuse me, for one second if I may. Senator Lamb and Senator Nichol, do either of you have any objection to Senator Landis continuing the explanation to its conclusion? Okay. Thank you, Senator Landis.

SENATOR LANDIS: The second half or the bottom half of the fraction is a figure, a capitalization rate that is used to reduce the income figure which could run out in perpetuity back to present value. It is comprised of two parts. Part of it is for the equity portion of land that is owned and the value of that and the debt portion of the statewide total of land. As a matter of fact, 80 percent of land is held in equity or owned, 20 percent is in debt. The 80 percent figure is a five-year average of the T bill rate. The debt portion is a five-year average of interest rates charged by the Federal Land Bank. The best way to think about that figure I guess, and although it's not exactly mathematically precise, think of it in this fashion. Say the return to land on the top half of the fraction was a \$100 a year from an acre and the bottom half was a capitalization rate at 10 percent. Next year that \$100 would not produce \$100 of value, but the capitalization rate tells us it would produce \$90 of value. The year after it would not produce \$90 of value, it would produce \$81 of value and the year after \$72 of value and the year after \$65 of value. Add up all those years with that declining ability to make income and eventually it will run out. Total it up and what do you have? You have \$1,000. The assessed valuation of that land or \$100 of income divided by a capitalization rate of 10 percent is \$1,000. That's the way the income methodology works. Let me say that the administration of this fraction would be held in first part by the Revenue Department and, secondly, by county officials. Each year the Revenue Department will prepare a manual, an assessment of the statewide differences and figures that would be comprised for the 93 counties of the fraction I just described for you. When there is a 5 percent change in the total statewide figure either up or down, a new manual will be given a hearing by an administrative body that we will name and implemented by county officials. The members of that advisory commission, an ag economist from the University of Nebraska, a county assessor, a person representing residential land, one