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Revenue Committee  
November 18, 2011

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[LR350]

The Committee on Revenue met at 10:00 a.m. on Friday, November 18, 2011, in Room 1525 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LR350. Senators present: Abbie Cornett, Chairperson; Dennis Utter, Vice Chairperson; Greg Adams; Deb Fischer; Galen Hadley; LeRoy Louden; Paul Schumacher; and Pete Pirsch. Senators absent: None.

SENATOR CORNETT: Good morning. I'm going to go ahead and start the hearing even if we're down a couple of people. My name is Senator Abbie Cornett from Bellevue; to my left is Vice Chair Dennis Utter from Hastings; Senator Fischer from Valentine will be joining us, as will Senator Adams from York. On the far left is Senator...oh, I guess not. On the next is Senator Pete Pirsch from Omaha, and Senator Schumacher from Columbus, new to the committee. I thought he was going to be sitting over there. My mistake. On my far right is Senator Louden from Ellsworth; and then Senator Hadley from Kearney. My research analysts are Stephen Moore and Bill Lock. Today, Steve will be joining us. Matt Rathje is committee clerk. Our pages are Emily Gilmore and Ayisha Snyder. Before we begin the hearing I would please request everyone turn their cell phones to either vibrate or silent. Sign-in sheets for testifiers are on the tables by both doors and need to be completed by everyone wishing to testify. If you're testifying on more than one bill, you need to submit a form for each bill. Please print and complete the form prior to coming up to testify. When you testify, please hand your testifier sheet to the committee clerk. There are clipboards by the back doors of the room to sign in. If you do not wish to testify but wish to indicate either your support or opposition to the bill, these sheets will be included in the official record. With that, a couple of rules today, since we are only on recess for a couple of hours, I'm limiting testimony with the light system to three minutes because we do have to get back up to the Chamber. This hearing was scheduled prior to a special session being called. With that I will open the hearing and recognize Senator Pankonin.

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office  
Rough Draft

Revenue Committee  
November 18, 2011

---

DAVE PANKONIN: Thank you, Senator Cornett and members of the Revenue Committee, former colleagues, good to see all of you this morning. I want to start by saying thank you to all of you for the work these past couple of weeks on the pipeline issue. It's been enjoyable to read about it in the paper and I appreciate all the hard work and effort that looks like it's going to come to a solution that will make most Nebraskans pleased with your work. The reason I'm here today is to offer support to Sarpy County friends and former constituents that I'm familiar with an issue that they want to bring in front of you today. And also thinking about that now that Senator Louden may have a particular interest in that his district is...now reaches into Sarpy County. There's going to be people that are going to visit about their particular situations and it can get technical in nature on this issue, but it really comes down to me to a simple question of fairness and one issue in particular. And a county commissioner from Sarpy County is also here to talk about it today. I'm just going to hold up a little map of some of the neighboring counties of Sarpy County. And the issue in particular that has people really concerned is how they value the first acre under an acreage or a farmstead. And in Sarpy County that number is now...that first acre is valued, the dirt underneath the property is valued at \$64,000, where Douglas County that would have acreages similar, that first acre is \$20,000, Washington County \$32,000, to the north of Omaha, Saunders County to the west is between \$15,000 to \$20,000. That's been set by the state over the years. My county, I'm just on the border at Louisville between Sarpy and Cass. Cass County, \$18,000. We have a lot of similar acreage and farmsteads. Lancaster County is between \$10,000 to \$40,000. So I think a lot of these folks are concerned about an equalization issue of why their first acre is valued at \$64,000. I can also tell you that from being on...knowing about where most of these folks behind me live, that these farmsteads are not any different than Senator Utter would see in his district or Senator Hadley and, in fact, I've got two longtime friends, Mr. Timm and Mr. Eskey (phonetic) may be speaking and very familiar with their places and been there many times and in their homes. And they have nice homes, but there's grain bins, outbuildings, and they wouldn't be considered acreage material. The roads are not paved by them. You know, I think when people think of Sarpy County, it is percentagewise the fastest growing

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office  
Rough Draft

Revenue Committee  
November 18, 2011

---

county in our state. But there are areas, as I've told you over the years, Senator Adams knows this, we were talking about education policy that are very rural and that you would not think you were in fast growing Sarpy County. There are a lot of acreages but there are also a lot of working farms that have this particular issue. So I'm going to be here for a while to listen to some of the other testimony. I'm sure you will appreciate the folks that came and listen to them as well about this issue and whether the state through its policymaking ability can make any difference. This has been something that's been going on for two or three years. If I would have remained in the Legislature I would have tried to maybe bring a bill that would address this. And some of those points may come up in something that maybe the committee can act on under this legislative study resolution. So with that I will conclude and let these folks come. I'm going to be here for a little while and then have to get back, but it's great to see you all and thank you for your attention today. [LR350]

SENATOR CORNETT: Thank you, Senator Pankonin. Questions from Senator Hadley. [LR350]

SENATOR HADLEY: Senator Pankonin, I really don't know, what...quickly, what is the first acre concept or what does that really mean? [LR350]

DAVE PANKONIN: Well, and some of these people talk about the more technical nature, but basically when they start valuing your property, it's the dirt underneath that first acre. And there are a lot of nice upscale developments in Sarpy County that have streets and street lights and all the services that, you know, these lots would sell for that. And so I think the issue has been, the assessor in Sarpy County has taken...and we're going to hear from a commissioner and others to talk about it, but they've set that value of the dirt underneath that property to be \$64,000 in Sarpy County, and in neighboring counties that have similar characteristics, still close to the Omaha area, someone thinks about commuting, or the value of the ground that it's just so substantially higher, it's double...well, if Lancaster is at \$40,000, they're still \$64,000.

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office  
Rough Draft

Revenue Committee  
November 18, 2011

---

You know, it's just so much higher than these other counties. I think these people are wondering, you know, why? What can be done? There should be some kind of equalization between counties on...when the disparity is that great. [LR350]

SENATOR HADLEY: Okay. Thank you, Senator. [LR350]

SENATOR CORNETT: Senator Louden. [LR350]

SENATOR LOUDEN: Yes, thank you, Senator Cornett. Well, thank you for being here Senator Pankonin and now when you talk about that first acre, are we talking about our farm, farm ground or are we talking about some kind of residential properties that have five or six acres as residential property? [LR350]

DAVE PANKONIN: Senator Louden, I think you're going to hear that it's in both cases. I'll let these people speak to that. There's folks that have done a lot of research on that, but I think it is...you know, it would be like your farmstead in Ellsworth that first acre valued at \$64,000, and then, you know, the rest of the property. [LR350]

SENATOR LOUDEN: And this is all the farms in Sarpy County in there, that's what that first acre, their farmstead? [LR350]

DAVE PANKONIN: I think that's what you're going to hear and I can tell you that, you know, there are a lot of nice acreage properties where that might be applicable. But we're talking about folks here that, you drive by grain bins to get to the house and there's outbuildings and it's not something that you would sell as someone that is commuting to Omaha. They're working farmsteads. [LR350]

SENATOR LOUDEN: And I'm quite familiar with that because we have that going on in counties out west and all over. I think ours are \$2,500 for that first acre. And my question has always been, you're paying taxes, property taxes on the buildings that are

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office  
Rough Draft

Revenue Committee  
November 18, 2011

---

sitting on it, so why is that ground there worth any more than the ground that you're farming or ranching or whatever next to it? And that's been my question all the time because you are adding value to that first acre because you got...that's where your property...your buildings and stuff and they're all taxed. So that's been a long-term question in the area where I live. And I'm wondering in Sarpy County, surely that farm ground isn't valued at \$64,000 an acre that they're growing soybeans on right up to the edge of the yard. If there should...why that ground underneath the house is valued at that much more. Now if we're talking about these acreages that has perhaps some sewer system, perhaps fire departments and police departments and that sort of thing, then we're talking about a different animal altogether and this is what I wanted to clarify is, which one we're talking about. [LR350]

DAVE PANKONIN: Well, I think you're going to find that out Senator Louden and I know these folks can appreciate that and I also want to invite you, now that you're down here sometime to come down and we'll show you where these people live and I think you'll be surprised that...I know that you represent the Gretna area now but for a short period of time and that's a very fast growing area. But these folks, a lot of them live in just beautiful rural settings that you would appreciate. [LR350]

SENATOR LOUDEN: Well, I toured it three times now and the graciousness of the committee said they would pay my mileage to drive from Lincoln to Gretna. (Laughter) [LR350]

DAVE PANKONIN: All right. Great. [LR350]

SENATOR CORNETT: Costs them forty bucks. (Laughter) [LR350]

SENATOR CORNETT: Senator Adams. [LR350]

SENATOR ADAMS: Thank you. Good to see you, Senator, and hear from you. As a

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office  
Rough Draft

Revenue Committee  
November 18, 2011

---

follow-up to what Senator Louden was...where he was headed, how many of these acreages in Sarpy County are part of SIDs? I'm not asking for a specific number. I know you can't give me that, but... [LR350]

DAVE PANKONIN: Right. Senator Adams, some would be and I think this is one of the issues you're going to hear more about. You know, how do you decide the difference between a farmstead and there are very valuable properties that have all the amenities that are part of the SIDs. And so that's why these people are concerned is that their properties that are very rural in nature, on gravel roads, and don't have all these amenities are being thrown together with these other properties, I think you'll hear that this morning. [LR350]

SENATOR ADAMS: Thank you. [LR350]

SENATOR CORNETT: Further questions? Senator Schumacher. [LR350]

SENATOR SCHUMACHER: Thank you, Senator Cornett. Maybe I'm just showing my newness to the committee here but if that's the valuation scheme for the first acre, what's the second acre or the third? Is that market value then or percentage of market value? [LR350]

DAVE PANKONIN: Senator Schumacher, I'm sure you'll hear more from these folks but you know that's kind of a related issue. Senator Louden asked about the price of farm ground and that surely those next acres aren't worth \$64,000 and they aren't. But, obviously, farm ground in Nebraska overall has had a huge step up in value in a short period of time and that's a secondary issue that I think you will hear about today that is a problem for Nebraska compared to neighboring states that use the income approach in that we're going to have a run up, we've had a run up and when it does settle back down, that's going to be a particular problem for not only Sarpy County but other areas of the state. Coincidentally, I was on a teleconference yesterday at the Federal

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office  
Rough Draft

Revenue Committee  
November 18, 2011

---

Reserve, called in bank of the United States that does agricultural lending, was supposed to be on this teleconference. They are getting very concerned about the potential bubble in farmland prices. And this conference call was talking about all kinds of crops. It was national, pecans and apples and whatever. But in particular, ground that's been tied to corn and the high prices of corn recently have driven up farmland values as we all know, but the interesting thing on this national conference call was, the one state that was mentioned as having the highest percentage increase in the Federal Reserve's opinion was Nebraska. They feel that farm ground in Nebraska over the last year has increased about 40 percent. So we know that has to do with educational policy and a lot of policies that is something that needs to be considered because, hopefully, it's not a huge drop like we saw in the '80s, but when this modulates, and it's tied to the price of corn most directly and obviously other factors involved, but it's...you know, that property tax basis being that high for that time and then coming back down could be an issue that you need to look at too. [LR350]

SENATOR SCHUMACHER: Thanks, Senator. [LR350]

SENATOR CORNETT: Further questions? Seeing none, thank you. [LR350]

DAVE PANKONIN: Thank you, Senator Cornett. [LR350]

SENATOR CORNETT: First testifier. May I see a show of hands of the number of people that are testifying? Okay. [LR350]

JIM WARREN: Senator Cornett, my name is Jim Warren. I am a currently elected member of the Sarpy County board and past mayor of Gretna. I'm also a real estate broker; understand a little bit of the appraisal techniques and the values of the property. I'm going to address specifically the one acre parcel. It's a concern for me in the way the methodology is done in Sarpy County is the one acre parcel is based on an existing sale from an SID that has the amenities that an SID would, things like restrictive

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office  
Rough Draft

Revenue Committee  
November 18, 2011

---

covenants, hard surface roads, water systems, etcetera. It's a three-quarter of an acre parcel that's extrapolated out to be an acre, so it goes from the sale price base that it would be higher priced if it would be an acre. My contention of the error of the method is that there's, number one, no zoning protection to the parcel. And in selling real estate, one of the first things people want to know is, you know, what do I have protection that my neighbor is not going to do loud things in the morning. A farm site has none of that protection. In fact, it's a working farm location so you get traffic, you get livestock, you get all of the things most people don't want when they look. It also has no amenities on a farm site. If you want water, you drill a well. If you want hard surface roads, you pave your roads. So it would have none of the amenities or any of the protections that would go along with zoning. The third thing is that my contention has always been, I got my brokers license in the mid-1970s. Farmers, for the most part, don't stay on that treasured one acre parcel in the country. In fact, small towns across the state have little subdivisions in the corner that when the farmers get to the point that they retire, and they're willing to turn the farm over to someone else, one of the first things they want to do is move into the community where they're closer to the things that would be provided, the amenities. So my argument is that the dirt that is underneath the one acre should be valued the same as the remaining parcel. Whatever the valuation for farm ground is, should also be the valuation for the one acre site. [LR350]

SENATOR CORNETT: Questions from the committee? Senator Pirsch. [LR350]

SENATOR PIRSCH: I do have one. So essentially what you're seeking from the state Legislature then is that legislation that would prescribe to the assessor explicitly how he would value this first acre then? If it meets certain conditions, it doesn't have those that exist within an SID in terms of what you talked about the restrictive covenants, the roads, the water access. In such case, I mean, you want the Legislature to espouse explosively those conditions and then say in such...under such conditions, assessor shall value the land in using this methodology. Is that what you're looking for? [LR350]



Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office  
Rough Draft

Revenue Committee  
November 18, 2011

---

JIM WARREN: Right. What Senator Pankonin showed was the inequity of the values from county to county and with appraisal techniques, there's a certain amount of art that's applied to it as well as the science. And I think the science is the application that's followed in Sarpy County where some of the other ones use a little bit of interpretive skill and art and bring the values more in line. But, yeah, I think that there needs to be some clear-cut direction as to a farm site. If it's identified to that, it's the same value that the farm would be. [LR350]

SENATOR PIRSCH: Yeah. Can you kind of quantify in terms of the number of individuals then who have in Sarpy...you said Sarpy is kind of unique in having this type of an assessment. How many...can you give me an idea of the scale of the problem? [LR350]

JIM WARREN: Right. I can't. One of the guys, I'm sure, from the Farm Bureau or one of the farmers here can quantify the number, but I would put it into, you know, a couple of hundred farm sites at minimum in Sarpy County. [LR350]

SENATOR PIRSCH: Thank you. [LR350]

SENATOR CORNETT: Senator Hadley and then Senator Louden. [LR350]

SENATOR HADLEY: Thank you, Senator Cornett. Being a city boy from that big town of Kearney I'm trying to get my hands around...so basically what you're saying is, the first acre, whether it be an SID or a farm site or whatever it is in Sarpy County, is now valued at \$64,000 for tax purposes, is that correct? [LR350]

JIM WARREN: The farm sites. Any ground that receives special valuation, it falls into a different category whereby they say that the one acre farm site itself is set at a value and across the county, regardless of location in Sarpy County, it's that \$60,000 number for the one acre. [LR350]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office  
Rough Draft

Revenue Committee  
November 18, 2011

---

SENATOR HADLEY: Sixty thousand. So if I live in an SID that has paved streets, sewers, you know, the amenities that you would find in most cities, that's valued right now the same as the farm site? [LR350]

JIM WARREN: No. No, those are separate values, separate valuations set on that. In other words, I live, you know, in the big city of Gretna, and I'm in city limits and yet I live on an acreage. My valuation for my ground is different than the residential. And I'd have to look it up, but I actually think mine is valued less. [LR350]

SENATOR HADLEY: Okay. Thank you. [LR350]

SENATOR CORNETT: Senator Louden. [LR350]

SENATOR LOUDEN: Yes, thank you, Senator Cornett. Well, thank you for your testimony. Let's see if I get this clarified then. In Sarpy County, when you say farm sites, that's a site on a working operation, working farm operation. [LR350]

JIM WARREN: Yes. [LR350]

SENATOR LOUDEN: And then if you have a homesite or something like that on a two acre, ten acre, and I don't know how it's zoned whether you can only have so small an areas or not in some of that areas, but that land, then is valued different on that. That's a different classification, is that what you're saying? [LR350]

JIM WARREN: Right. [LR350]

SENATOR LOUDEN: Okay. And so we're talking about that one acre under the farm site which people from here to Wyoming have the same problem and the same question, and like I mentioned before, why is that land worth a nickel more than the

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office  
Rough Draft

Revenue Committee  
November 18, 2011

---

ground that you're plowing up right up to the yard fence? [LR350]

JIM WARREN: Right. In fact, if you would want to buy a one acre parcel beside one of these other farm sites in Sarpy County, you would not be allowed. Because of zoning restrictions, it would have to be subdivided, SID established, or some sort of an association. [LR350]

SENATOR LOUDEN: Right. And that's a different classification of valuations. [LR350]

JIM WARREN: Right. Right. [LR350]

SENATOR LOUDEN: Well, then where did they come up with this \$64,000 or whatever numbers we've been floating around here? Who grabbed that? Did they grab it out of the air or where did they come up with that? [LR350]

JIM WARREN: Well, it goes back to a mass appraisal technique that's used by the assessor and he takes a single sale that happened in a subdivision that is an SID that has all of the amenities that I talked about. And he takes that value of a three-quarter acre parcel and extrapolates what it hypothetically would be if it were an acre parcel. And that's the value that's applied to the homesite. [LR350]

SENATOR LOUDEN: In other words, he went back out into the SIDs and used that valuation to set this valuation on this farm site. [LR350]

JIM WARREN: Right. Because there are no farm site sales available. [LR350]

SENATOR LOUDEN: Right. [LR350]

JIM WARREN: Because you can't sell a one acre with a house. [LR350]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office  
Rough Draft

Revenue Committee  
November 18, 2011

---

SENATOR LOUDEN: Right. Yeah, where did he have authority to do that? [LR350]

JIM WARREN: He's an assessor. (Laughter) [LR350]

SENATOR LOUDEN: Well, thank you. I guess that says enough. [LR350]

SENATOR CORNETT: Senator Schumacher, and then Senator Utter. [LR350]

SENATOR SCHUMACHER: Thank you, Senator Cornett. So the issue where they jack-up the price to this maybe arbitrary or...level, only applies to lots or the first acre in which there's a farm associated, which gets a discounted rate because it's farmland. [LR350]

JIM WARREN: Right. [LR350]

SENATOR SCHUMACHER: Okay. That's all I have. Thank you. [LR350]

SENATOR CORNETT: Senator Utter. [LR350]

SENATOR UTTER: So I assume...thank you, Senator Cornett. And Mr. Warren, I appreciate you coming to testify. I assume this is codified in state law, this first acre comes, that's codified somewhere. [LR350]

JIM WARREN: Yes. [LR350]

SENATOR UTTER: But not the value is codified. [LR350]

JIM WARREN: No. No. [LR350]

SENATOR UTTER: And that's left up to the local, without guidance, is left up to the local

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office  
Rough Draft

Revenue Committee  
November 18, 2011

---

assessors to... [LR350]

JIM WARREN: Interpret. [LR350]

SENATOR UTTER: ...interpret that. In all counties of the state is it a single value per county, do you know that? [LR350]

JIM WARREN: That, I know, no, it's not for sure because I know neighboring county, Douglas County, has divided the county into at least three different areas and in each of those areas, it's a different value set. And in Sarpy County, however, it's a single value regardless of whether you're half a mile from a shopping center in the Papillion area or whether you're very rural in southwest Sarpy County. [LR350]

SENATOR UTTER: The...and the valuation in Sarpy County at least, you maintain is taken by extrapolating a value from a three-quarter acre parcel inside a SID? [LR350]

JIM WARREN: Yes. Yeah, inside a development. Thousand Oaks Development is where that parcel is taken out of. [LR350]

SENATOR UTTER: And that was done because there were not any sales of farmsteads because you couldn't sell a one acre farmstead. [LR350]

JIM WARREN: Right. Right. [LR350]

SENATOR UTTER: What is the minimum size of a farmstead that you could sell in Sarpy County? [LR350]

JIM WARREN: It's going to be depending on the zoning, but traditionally it will go anywhere from depending how you subdivide it down. You can go to acreages, five acres, ten acres, twenty acres, traditional. [LR350]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office  
Rough Draft

Revenue Committee  
November 18, 2011

---

SENATOR UTTER: Five acres would be the minimum? [LR350]

JIM WARREN: Oh, no. If it's subdivided out, I think...and I'd have to go back and look at statute, I think it's twenty in Sarpy. One of these people behind me could answer that better. [LR350]

SENATOR UTTER: Thank you very much. [LR350]

SENATOR CORNETT: I didn't think I'd ever say this, but having been here long enough, I remember when we enacted this bill. I believe it was Senator Hudkins' bill and my legal counsel was just provided me the statute for that reference. And I remember why we passed the original bill and I think this might be an unintended consequence for that, but how are these residential acreages being lumped in as agricultural land? Because I'm looking at the statute and it states that agricultural land means a parcel of land excluding any building or enclosed structure and the land associated with such building or enclosed structure located on a parcel which is primarily used for agriculture or horticulture. [LR350]

JIM WARREN: Right. [LR350]

SENATOR CORNETT: So how are the working farms getting lumped in with residential acreages that are in SIDs or have these improvements that we're talking about? [LR350]

JIM WARREN: The assessors told me that because there are no farms available for comparison within Sarpy County, the only other comparables he's got to go with would be an acreage subdivision. And so he goes back to acreage and his interpretation is that you disregard that it's farm, meaning it could be acreage subdivision ground. [LR350]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office  
Rough Draft

Revenue Committee  
November 18, 2011

---

SENATOR CORNETT: So could this be fixed with removing subdivisions or putting in language that says subdivisions cannot be used as a comparable? [LR350]

JIM WARREN: I'm a county commission in Sarpy County. How to fix this...you know, I can point a problem out. I don't know what the solution is and that's why I'm thankful for each of you, they're willing to be in the positions you're in. Whether it's a change in the existing law, direction given to assessors, that someone from the tax office is to step in and give a clear delineation of what needs to be done, that I don't know the solution there, but thank you, Senator. [LR350]

SENATOR CORNETT: Thank you. Further questions from the committee? Senator Pirsch. [LR350]

SENATOR PIRSCH: I'll try to be brief. I think part of your complaint is, it's being interpreted, the law is being interpreted and applied by different assessors in different counties in different ways and it just so happens that in your county that results in a high assessment for you. Has this been a longstanding practice...the practice of the assessor in interpreting the statute and has that been going on a while or a recent development? [LR350]

JIM WARREN: I think it's since the new law has been instituted is where...is what's triggered the higher valuations. [LR350]

SENATOR PIRSCH: When did that go into effect, do you know, or...? [LR350]

JIM WARREN: That I don't know exactly. [LR350]

SENATOR PIRSCH: Okay, thank you very much. Appreciate it. [LR350]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office  
Rough Draft

Revenue Committee  
November 18, 2011

---

SENATOR CORNETT: Further questions? Seeing none, next testifier. [LR350]

JIM WARREN: Senators, thank you for your time. [LR350]

SENATOR CORNETT: You're welcome. [LR350]

JAREL VINDUSKA: (Exhibits 1, 2 and 3) Senator Cornett and members of the Revenue Committee, my name is Jarel Vinduska, J-a-r-e-l V-i-n-d-u-s-k-a. Thanks a lot for hearing our testimony today. This has been an ongoing problem starting in 2009 is when it became, and it's been a...the issue is the inconsistency of the various urbanizing counties but the problem has been most egregious in Sarpy County. The \$64,000 figure that's been thrown out, that was in 2009 for the first acre. In 2010 it was \$62,000, and in 2011 now, it's \$62,000 for the first acre. I'd like to answer a few questions that three of you had that have been very good questions that you kind of went to the issue right to start with. Senator Pirsch, you asked how many people are affected in Sarpy County. It's over 800, probably close to 850. The first year in 2009 when that came out, the \$64,000, there was hundreds that protested and many went to the TERC, tied up the TERC, cost the state a lot of money and a lot of hassle for a lot of people. And then Senator Utter you asked if there is any scrutiny of this procedure. Yes, there is, there's supposed to be. The property tax administrator, Ruth Sorensen is required by state statute to give directives to the county assessor on how to interpret legislative statutes. And she had a directive, let's see what those numbers...0804 that she put out in 2004 but when the problem developed and she saw how inefficiently and inconsistently the various counties were interpreting this, she realized that the directive was not very clear so she rescinded that directive and it's since gone. I asked her to be here today to answer questions because it is her job to make sure that the county assessors are doing it properly. And I see assessor Pittman from Sarpy County is here today so I'm sure he'd be able to answer any questions in... [LR350]

SENATOR CORNETT: Just a point of clarification, Ruth will be here. [LR350]



Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office  
Rough Draft

Revenue Committee  
November 18, 2011

---

JAREL VINDUSKA: Oh, good. [LR350]

SENATOR CORNETT: I will be phoning her when we're close to the end of the hearing. She had another meeting this morning. [LR350]

JAREL VINDUSKA: Oh, great, great. But anyway, and then Senator Louden, you got to the meat of the issue right away. I handed out three handouts to you. I hope you have them on your desk. One is the 2011 rural land model. If you'd refer to that, I think it will answer a lot of your questions and show what the part of the issue is here. If you look at the first page, you have per acre values clear on the right of that column starting at a high of \$62,000 which is the per acre price for this year going down to 300 acres which is \$6,424 per acre. As you know, and anybody that's familiar with real estate, the smaller the parcel generally the greater the value per acre that it is. These prices over here are actual market value. We have...on due used properties, when ag land special assessment was developed and put into law, we have two uses on the property. We have the ag use and we have the nonag use, it's called. I don't agree with that but that's the law. I say the buildings and the farmstead and the farm house that is an ag use but the Legislature in an effort to try to make it more consistent with rural acreage properties, they figured it would be fair to call the land that wasn't used for production agriculture, we've called that nonagriculture use. So in other words, the assessment has to be two different ways on the property. There is special assessment for the ag portion and then the portion that doesn't qualify for special assessment, that's required by state statute to be 100 percent of actual market value. To answer your question, Senator Cornett, the reason these acreage, small acreage and SIDs got thrown in there, because the assessor, especially assessor Pittman has concluded that these properties aren't agricultural use because of that delineation (inaudible). They're still on an agricultural parcel but he's calling them residential property. So as a result, he thinks it's reasonable to go into the residential market to determine the value of the land under that house. [LR350]

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Revenue Committee  
November 18, 2011

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SENATOR CORNETT: And just for a point of clarification, that was not the original intent of Carol Hudkins. [LR350]

JAREL VINDUSKA: I don't think so. I don't think so. [LR350]

SENATOR CORNETT: That these were supposed to be just the homesteads for the agricultural land. [LR350]

JAREL VINDUSKA: And the reason I don't believe that was the original intent... [LR350]

SENATOR CORNETT: And Deb, I think, is the only person... [LR350]

SENATOR FISCHER: Yeah. [LR350]

SENATOR CORNETT: Yeah. [LR350]

JAREL VINDUSKA: The reason I don't think that's the original intent is because the assessor Pittman and all the other assessors will verify this, as Senator Louden pointed out, all of the improvements, the house, the roads, the driveway, the septic, the well, the electricity, everything, everything that's on that property is already assessed and taxed separately. So it's ludicrous to say that because those things are there, that increased the value of the land. That would be double taxation, double assessment. So that isn't what the intent of the Legislature was. They wanted just those acres that weren't being used for production agriculture to go back to the actual market value of the farm. Those figures are the actual market value of the farm on the right from \$6200 to \$6400. But actually the \$6200, if you look at it, the next page, look on page 2, all of these figures that you see are so-called comparables. And if you go to page 2, these are supposedly farm parcels. But if you look on page 2, these are the ones that are actually farm parcels but they're not really actually working farms. If you notice the size, three acres

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Rough Draft

Revenue Committee  
November 18, 2011

---

up to a high of nineteen acres, those are generally, by most people, not called production agricultural parcels. Those are rural acreages, but they're still listed as farm. But look at it, the highest price one is \$36,337 per acre. [LR350]

SENATOR CORNETT: Just as a point of clarification, I remember the discussion with Carol Hudkins and the Revenue Committee and she...the smaller farms were part of what she wanted to include because some of the vineyards and things like that that are smaller, but again the intent was not this. [LR350]

JAREL VINDUSKA: Yeah, in other words the actual market...what the intent was, the actual market value of the 3.44 acre piece, if you go on the first page again, the actual market value of a piece that size, here's 3.5 acres, is \$24,000 an acre. So that would be reasonable to say they (inaudible) the house on that size piece was \$24,000 but it wouldn't be reasonable to say that at \$62,000 an acre. But anyway, if you go to page 3, there is only one property in all of Sarpy County that came anywhere close to \$62,000. That's the first one on the list here, Lienemann's Subdivision, Lot 8, came to \$61,453. That lot is on 72nd Street, the main thoroughfare of Omaha. It's one mile south of Shadow Ridge, Shadow Lake shopping center, big stores, fancy, everything is fancy, paved roads, and stuff. So you found one lot that if you extrapolate that it's \$62,000, that becomes the acre value, according to assessor Pittman, of over 800-some properties, farm properties. I don't know what more evidence you need of how this has got out of hand than the assessor's own model. If you go to the next page, the graph, you see the correlation between acreage and price. You see a flat line, flat line all the way up to almost 15 acres, then you get to the 5 acres. Well, when you get to the 5 acre, you look at the acreage on the bottom of the line on the graph, 5 acres, the line goes vertical. The price just astronomically goes up, up to this one property up here that sold for \$62,000. Yet somehow, that one acre at \$62,000 became the one acre price of the whole rest of the working farms in Sarpy County. It doesn't make sense. So back to who is supposed to be the checks and balances. The checks and balances are supposed to be the property tax administrator. That's another handout I gave you. It's called property

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Revenue Committee  
November 18, 2011

---

tax administrator's certification. The property, every year she's supposed to certify that agricultural, residential, commercial property falls within a certain percentage of sales to assessment ratio. If you understand what that means, she's supposed to look at the actual sale price... [LR350]

SENATOR CORNETT: I was just going to say your time... [LR350]

JAREL VINDUSKA: Okay. [LR350]

SENATOR CORNETT: ...but you have all this just submit written? [LR350]

JAREL VINDUSKA: Yeah, I'll...anyway that's what I'm getting at. I'll conclude. There is no way she can certify it because there are no sales. When you sell a farm, it's one price for the whole farm. It doesn't...it isn't in the sales record that the acre under the house was worth \$62,000 and the rest of it was worth this. The only thing she can certify is acreages and SIDs and stuff like that. So her certification is not accurate because she has no figures whatsoever to go by to say that it's meeting within the 96% of sales to assessment ratio. I've turned in a letter with suggestions on how to fix this. This is one of many, one of probably twenty or thirty that I've given to the Department of Revenue, but there is some pretty easy fixes and Senator Loudon, it didn't take him very long to figure it out. The actual market value is the same as the actual market value of the other acres, not the agricultural value which is less, but the actual market value for development purposes which is this figure on the right. Thanks for your time. [LR350]

SENATOR CORNETT: Questions from the committee? Seeing none, thank you. [LR350]

JAREL VINDUSKA: Thank you. [LR350]

SENATOR CORNETT: Next testifier. [LR350]

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Rough Draft

Revenue Committee  
November 18, 2011

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LARRY TIMM: Senator Cornett, members of the Revenue Committee, I'm Larry Timm and I'm a farmer in southwest Sarpy County. And I think we've had good testimony from the...so far in regards to the evaluation of that first acre, so I won't be redundant in that regards. But would rather prefer to use my time in looking at kind of an overall picture of what we face in Sarpy County. The farmland in Sarpy County represents less than two and a half percent of the total appraised value, real estate value of the county, less than two and a half percent. So if I just looked at my ag land values, and again when you come...if you come to visit my farm you would find it...would differ very little from probably your own constituents, you know, corn, bean farmer, a lot of grain bins, shop, machine shed, 100-year-old home. Our ag land values went up 36 percent last year. Now when we represent two and a half percent of the valuation of an entire county, what hope do we have of any adjustment in mill levy? That's an issue that I think needs to be addressed by the Legislature on the urban county such as Sarpy, Douglas, I believe, probably Lancaster, probably Hamilton County is affected with the amount of development as far as their ratios. But it's a real concern to us. Certainly, you know, we're willing to pay our share of taxes and probably then some, but we've been there five generations and, you know, that farmland, it doesn't produce children, which require an education, which I'm all for. My wife was a teacher. It doesn't need police protection, no one is stealing it. We don't have paved roads. I live on gravel roads. We don't particularly need fire protection. So, you know, there's an issue of fairness and how do you treat these urban counties when you face rapidly escalating real estate values. Now the real salt in the wound with this is, is that last year with our 36 percent increase in values, we were assessed approximately 16 percent higher than the surrounding counties by classification. When the ag land valuation boards existed, I represented Sarpy County on the Area 2 Board. That no longer...when they were...we actually had the ability to address those issues. It was a form by which county assessors could talk and dialogue and it was given the authority to make adjustments. I live approximately four miles from the Cass County border. Their evaluations are around 17 percent less, plus probably a lower mill levy. So my hope would be that as a Revenue Committee that

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Rough Draft

Revenue Committee  
November 18, 2011

---

there could be some type of legislation drafted or perhaps just directive to work through. I think Ms. Sorensen does a good job. She works hard, but she needs to be given the authority for intracounty besides just intercounty adjustments, which she can adjust the cross county lines to put some type of uniformity. I mean, you shouldn't be able to walk across the county lines, suddenly one is 15-20 percent higher. And again these are greenbelt values because I don't really consider anything, you know, purely agricultural land in Sarpy County. But realizing whatever that values goes up, that's how much my taxes are going up. Now it was up 12 percent the year before that, 12 percent the year before. At some point, you know, how much is enough? And so I just would like to address that issue and I thank you for your consideration on that. [LR350]

SENATOR CORNETT: Just so you're aware, we have a study that addresses some of those issues that I believe we'll be discussing later. Questions from the committee? Senator Fischer. [LR350]

SENATOR FISCHER: Thank you, Senator Cornett. Thank you, Mr. Timm for being here. You mentioned the ag land valuation boards and if I recall this correctly, I believe it was my first year in the Legislature in 2005 there was a bill brought forward and I think it was by Senator Elaine Stuhr, a rural senator, and it moved through very quickly and the boards were abolished. And I remember my good friend Senator Heidemann and I, we were new, and all of a sudden these boards are gone and we're starting to hear from our constituents who wanted these boards to remain and it was too late. You brought those up again in your testimony. Can you explain to us what those boards were and my impression is you feel that they had value in this process. Could you enlarge on your comments on that, please? [LR350]

LARRY TIMM: Certainly, Senator Fisher. I do believe they had value. We had a very, very small budget so, as far as I recall, maybe a couple thousand dollars a year, you know, just basically for postage and clerk fees. But what they did is they allowed a form and we met maybe four times a year. And it allowed a form by which the various

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Rough Draft

Revenue Committee  
November 18, 2011

---

adjoining counties, they would present their various values that they were looking at in, by areas. Some counties were split into multiple areas, market areas. And what we would...the function of that was to try to take those adjoining areas, and you're never going to be completely perfect, but you get them close so that you wouldn't...I mean, literally some farms are being split that you're taxed at one rate on one side and another on the other so they serve that purpose. Now they were also vested with the power to make adjustments. I think we did that very sparingly. I can remember maybe three times in the four or five years I served on it that there was actually adjustments made. Usually you could just work it out. You know, right now, the assessors are kind of in...in somewhat of a tough situation because they're answerable to the state but really how do you deal with that. I mean, you come up with a certain model and you believe that this represents it but when I look at Saunders County, which is assessed by the state of Nebraska, why are they 16 percent lower by land class than Sarpy County. And I also own land in Saunders County and so, you know, and again going back it's a secondary issue, but in Saunders County when I have a large increase in valuation there's a pretty good chance you're going to get an adjustment in the mill levy. What are you going to do for the farmers in the urban counties? You know, they've been there for generations. They didn't ask all the people to start moving in. I mean, we try to be good neighbors but it comes down to an issue of fairness. [LR350]

SENATOR FISCHER: In my area of the state, most land sales are exactly that. They're land sales and very rarely do buildings come into play when you're talking about price. Do you think that's true in your area or are there farmsteads that are being purchased to become somebody's new acreage when they move out of the metropolitan area?  
[LR350]

LARRY TIMM: I would say rarely. Matter of fact, probably just the opposite. I think most of the time when a farm is sold in Sarpy County with building sites, matter of fact I can't think of anywhere they remained a working farm, they're a detriment because it costs money to remove the buildings. [LR350]

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Revenue Committee  
November 18, 2011

---

SENATOR FISCHER: So people are...they're not necessarily buying that farmstead for the home on it? [LR350]

LARRY TIMM: You know, in order to do that...no, no. I'd say virtually never if it sells as a farm. Now if you're going to split off like.... [LR350]

SENATOR FISCHER: No, no, I'm not talking about it selling as a farm. [LR350]

LARRY TIMM : If you're going to split off like five or ten acres, I think it would depend on the parcel. Now what Senator Pankonin and county commissioner Warren testified, the issue is like if you came to my farm, I've got, I think, about 12 or 13 outbuildings. I've got...I don't know what there is there, 80-90,000 bushels of grain storage. I mean, who wants that? [LR350]

SENATOR FISCHER: Only a farmer. [LR350]

LARRY TIMM: Only a farmer and nobody is locating to Sarpy County to beginning a farming career. And that's the reality. So most of the time, I'd say it's probably almost a negative factor but I can't rule out that there would be a...you know, every sale is unique. And so there could be some...it's an old farm house, an old barn, and that's their dream, they want to fix it up. They could buy it as...they could buy it in theory as that but they're not going to pay...if we go back to this one acre thing, they're not paying \$64,000 an acre underneath that. They're paying, you know, whatever it is, six or seven and then something for the house and something for the, you know, for the barn and that's their dream project and more power to them. You know, they...does that help, or...? [LR350]

SENATOR FISCHER: But they're...well, I guess what I'm getting at is there the possibility in your area of the state if this is valued that high, could it be sold for \$64,000 an acre... [LR350]



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Transcriber's Office  
Rough Draft

Revenue Committee  
November 18, 2011

---

LARRY TIMM: No. [LR350]

SENATOR FISCHER: ...with the buildings on it as a acreage for someone? [LR350]

LARRY TIMM: I'd say, virtually no, no. Yeah, because... [LR350]

SENATOR FISCHER: Because in my area of the state and Senator Louden's, I would guess that it doesn't happen. You know you don't put money into homes on ranches because you're not going to get it back. [LR350]

LARRY TIMM: No, exactly. No, it would sell as like, you know, whatever the house is worth and that, but as far as that type of value for the underlying ground, is that your question? No, absolutely not. No, as far as if you're asking for a value, those are lot prices. Now if you go in and buy a lot with all improvements, sewer, water, paved roads, the whole thing, and you know we're talking about is many times an old farm house on a gravel road with an old barn and maybe somebody put a machine shed in there, or in my case, there's quite a few grain bins and things but it's a more modern, you know, working farm, but nobody else would want it other than a farmer. [LR350]

SENATOR FISCHER: Right. Thank you very much. [LR350]

LARRY TIMM: Thank you. [LR350]

SENATOR UTTER: Other questions from the committee? Senator Louden. [LR350]

SENATOR LOUDEN: Yes, thank you, Senator Utter. Well, thanks for your testimony today and yes, this raises all kinds of issues when you talk about farmsteads and that sort of thing because in our area there was a big...in Sheridan County, I should say, there was an issue between the county commissioners and the county assessor on how

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Rough Draft

Revenue Committee  
November 18, 2011

---

they were going to...she was going to raise the value on the farmsteads. And also there was an issue on the valuation of the house or something set there because they were valuing this house by the square foot and the commissioners contended that if this house was sitting 27 miles out there north of Ellsworth, it probably wasn't worth near as much as one that would be sitting in downtown Scottsbluff or Alliance or someplace like that. So there was a problem there with the valuation of that. Are you running across issues like that? How do they value your houses now? We've been talking about the land under it, how do they value your house on your farm? Do they value that house on the same square footage as one that's sitting down here in a SID or in downtown Gretna or someplace like that? [LR350]

LARRY TIMM: You know, I couldn't answer that. That would be a, I guess, a question for assessor Pittman. I can comment that in today's economy, in general, housing prices have gone down. The value of homes has gone down. And for whatever reason, on the average this rural properties homes, actually went up a little bit last year in Sarpy County. You know, I didn't protest it. It didn't sit well and it wasn't a big deal, big amount, but it went up about 2 percent, but it seemed like when you talked to people in town, you know, they all...for the most part, they were saying, well, our values went down maybe 4 percent. So it has the feel of kind of like you're being singled out. You know, you're... [LR350]

SENATOR LOUDEN: When you got your notice of reevaluation, especially on the property where your farm site was, there was certainly a valuation on your improvements and probably the farm site and then the valuation of the ag land in there, and that was what I am wondering is where that...as far as your outbuildings they should have been depreciated, they should get worth... [LR350]

LARRY TIMM: They don't though. [LR350]

SENATOR LOUDEN: They don't. [LR350]

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Transcriber's Office  
Rough Draft

Revenue Committee  
November 18, 2011

---

LARRY TIMM: They never go down. [LR350]

SENATOR LOUDEN: And, but your house, and I'm wondering where that is. Now having said all of this, there is a value when you sell property or buy property. I've bought enough of it to know that if I got some buildings on there, I'll go depreciate them out on my tax forms. And so you do get money back from your income tax by depreciating them out. Before we had these 1031 deferred sales, we had what we call investment credit. And that was the biggest boon there was to people purchasing land because you can take some old building that's about ready to fall down, value it at whatever you wanted, the federal government never came and looked, and call it an investment credit, you got it up-front money off of your income tax. But that didn't last very long. I guess it was too good for the rural people. But I'm wondering, you know, where your valuation is on your houses? [LR350]

LARRY TIMM: Well, I do remember two years ago when we appealed this and the first when we met with these high valuations on that first acre, I remember looking at a lot of comparables because that's what you're asked to do, you know, if you appeal your valuations. I think with any county the burden of proof is kind of on you. And I can remember looking at them and it was interesting because it appeared that many of...I remember looking at Fair View Acres. Those were like two and a half acre lots, paved roads, community water. But I think each have their own septic system, but just right outside of town. You know, pretty nice amenities and the value on those two and a half acre parcels, if you figure out a per acre basis, were around \$20,000 an acre. And I thought, how does that work that their taxed at \$20,000 and they're in this SID and we're taxed at \$60,000-some. Then if you look at the actual house...again, I live in an over 100-year-old house, so I think my taxes are pretty high for a 100-year-old house, but I don't have...you know, all I know is it seems like our values rarely ever go down. And yet, I know if I were to sell my place, I don't really know who would buy it, you know, with...you know, we're talking machine sheds, a lot grain bins, that affects the

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Transcriber's Office  
Rough Draft

Revenue Committee  
November 18, 2011

---

sales value. I don't know of any that are like that. To kind of go back to your question, they just don't sell. You know, if they do, more than likely they're just going to bulldoze the whole thing so it's...I don't know. It's...in fairness to the assessor it's tough because there are comparables with it, but my point is, I would...I just...and I think I speak for my counterparts, we just want to be treated fairly. And whether it's ag, you know, our homesites, the actual home itself, or the ag land, I just don't think we should be assessed higher than surrounding counties particularly concerning the fact that we're probably going to pay a lot...you know, we're going to get no adjustment again going back to that two and a half percent issue. It's...only I don't pay an assessment per acre. What I pay is the real estate tax. And that's the bottom line that people look at. And that's where ultimately, I think people are concerned. No one likes taxes, but if you treat people fairly you accept it as part of life and it's part of your civic duty. But I don't believe that we should be penalized for the fact that we live in a county...actually a corner of the county. I'm very, very rural where we're at, but a lot of the county is urban. So any of you are welcome to come out and visit anytime you want and I'll show you around, so.  
[LR350]

SENATOR CORNETT: Further questions from the committee? Seeing none, thank you.  
[LR350]

LARRY TIMM: Thank you. [LR350]

SENATOR CORNETT: Next testifier. [LR350]

MARILYN HLADKY: (Exhibit 4) Good morning, Senator Cornett and members of the Revenue Committee. My name is Marilyn Hladky and I am the Seward County assessor in Seward, Nebraska, and I have been the assessor since 1995 and I've also been in the office since 1979. So I want to thank you today for the opportunity to come to speak to you. I have some different topics to talk about than what you have already been hearing, so I hope you can indulge in me. Part of the study pertains to minimally

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Transcriber's Office  
Rough Draft

Revenue Committee  
November 18, 2011

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improved process and expanded agricultural land analysis process that's being used to establish several values of agriculture for the state in statewide equalization. The first thing, and I'm handing out exhibits and my testimony also, is talk about the ag land that have 5 percent minimally improved. That had concerned me as in the past, we had used all ag land sales whether it had \$100,000 house on it and all sorts of values of buildings on it, and the state did go away from that because that did distort when you tried to subtract out that value to really see what the ag land was selling for. So after that point in time, we went and the assessors only used just vacant land, no buildings, nothing on it to establish what our valuation was to set to for ag land. And then in 2010, the property tax administrators started including sales that have improvements. If the value of the improvements was 5 percent or less of the sale price, and again I had concerns on that, and through some processes I ended up having a contact with Pete Davis, who is the division of property valuation with the Kansas State Department of Revenue. And Pete just went through five or some e-mails back and forth. I hope you take time to read my exhibits with his concerns and what I had said to him and what he had responded back. Then I also contacted IAAO, which is the International Association of Assessing Officials headquartered in Kansas City, and asked them what would be the correct process to create a sales ratio when there are improvements in the sale. And they responded that the standard on sales ratios did not address this but they thought it was a good question and they decided to take it to their technical standards committee and address it. So on page 6 is the new verbiage that technical standards came back and talks about that you will...that you should subtract for the contributory value of those improvements. Now I will say that contributory value is probably a big issue about how to come back to that value. Pages 7, 8, 9 and 10 are letters from the Seward County Board of Equalization to the property tax administrator with their concerns on that topic. And pages 11, 12 and 13 is an actual sale of a property that I just had. I went to the auction and you can see on those pages, especially 12 and 13, the buildings that are on this property. This property sold at auction, public auction, well-attended by farmers. I didn't see any outside investors there for \$8,500 an acre. With the 95 acres that came in at \$773,500. That 5 percent came in at \$38,675. Well, the buildings on this property,

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Revenue Committee  
November 18, 2011

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you can see on that right hand side on page 11, with the site, are at \$27,019. So this sale would be used in my analysis to, well, I'm going to set ag land values without deducting the value of these buildings. And so that's kind of the concern that I have on that. I believe in my heart that these values of these buildings have value. They're being used and somehow they should be deducted from the sale price before the ratio what ag land sold for is calculated. Also on 14, 15, 16 are aerial...or pictures of properties that did not sell, but if they would sell, the values that I have on these properties would more than likely fall under that 5 percent category and not also be deducted from the sale price before calculating what the ag land was actually sold for. One thing on this issue is we really don't know the intent of those buyers. We don't know when they buy this property, are they going to use these buildings? Are they going to rent out these buildings? Are they going to split off that site and probably make somewhat of a profit and sell those buildings? Are they going to tear them down? And if they're going to insure them and use them, then certainly, in my mind, then they have value. So that's my topic on 5 percent minimally improved. And I see that I have a red light and I have a lot more to say, so may I continue? [LR350]

SENATOR CORNETT: Briefly. We are reconvening upstairs shortly. [LR350]

MARILYN HLADKY: Okay. I would like to talk a little bit on the borrowing of sales and I gave you an example on my...in my...on my testimony about borrowing sales. And last year, for example, I had the three study years and I had nine sales in one year, 21 in the middle of 19, and the state came back and borrowed sales for ten which loaded...it loaded extra sales into an old year of the market that was three years old. As assessor set values we drop off an old year, we add a new year, and we have this three year process of land and sales that we use to move forward. The next year, because that nine year one dropped off and my newer ones...the new one was added it was 15. So now the sales get borrowed for the front end of the process. So I think in my mind, and I'm just speaking for myself, that it's the manipulating the market and putting the sales so that just for the purpose of evening out. The market is what the market is. You know,

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Revenue Committee  
November 18, 2011

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if the market has slowed down, then it has slowed down and that should be accounted for in what all processes are. The other thing is the level of value. When these sales are borrowed in the counties, that was the level of value established for Seward County, but I set my values without using borrowed sales. I had 49 sales in my county and that was adequate to set my values, so the level of values set for my county was not representative of what my values really were. The other one real important thing I would like to talk about is, there's been some talk about time or trend adjusting sales. And I hope I understand that but we would take the old sales of the market three years ago. Let's say the irrigated was selling for \$6,000 an acre, the middle years \$7,000, and now it's \$8,000 or \$9,000. We would take those old sales and treat them like they were selling today at a much higher value so that would possibly make me as an assessor have to increase my value on ag land, maybe double the percentage that I was going to do it before. And then what happens the following year when let's say the market takes a big dip, and how will these tax entities with their budgets deal with values that go up and down and up and down. So I see some problems and real concerns on that, not only as an assessor but as also as a taxpayer. I guess the back page is just some important issues. I would like to see TERC remain as the entity that performs statewide equalization. The property tax division is our oversight agency. It's our measurement agency and I just think there needs to be some democratic process for the assessors in place and accountability for some checks and balances that somebody, another entity needs to also do this to keep the statewide equalization. I'd like to see if the 5 percent minimum improved sales are used, that they're adjusted. Some process come up for that. And so I just appreciate if you would take the time to read through all my exhibits. I really would appreciate and thank you for your time today. [LR350]

SENATOR CORNETT: Thank you. Questions from the committee? Senator Louden.  
[LR350]

SENATOR LOUDEN: Yes, thank you for your testimony here today. As a county assessor I presume you're familiar with the guidelines in 77-1371? That's those 12

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Revenue Committee  
November 18, 2011

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guidelines that, oh, talk about what can be used as a comparable sale. [LR350]

MARILYN HLADKY: Comparable sales, yes. [LR350]

SENATOR LOUDEN: And now when you were looking at these pictures you were showing us there, that land that sold and stuff, was that...did any of that land fall within any of those guidelines? Was that bought by a nearby owner that was within a mile or so of that land or something like that? Or do you use those guidelines at all? [LR350]

MARILYN HLADKY: I use those guidelines somewhat, but I have found in over the years when ag land comes up for sale in an area, the buyers you're going to get there are the people that own property in that area, within, you know, a certain, a mile distance. So it's usually local, close to those properties because people don't want to drive their combine and tractor 20 miles down the road to go farm another property. But I do not disqualify a sale because it was owned by adjacent property owner. The one that just sold that I have the example of, that day of that auction, that property with those buildings on it sold for \$8,500 an acre. Right across the road to the south, another irrigated piece of property sold for \$9,315 an acre and a mile away the third property in that auction sold for \$7,500 an acre. So also when you talk about equalization across county lines, when I see sales within one mile, the variance that they sell for, you know, trying to equal across county lines is also an issue when you have these variances within the county. [LR350]

SENATOR LOUDEN: What I'm asking is, was any of that land purchased by people that lived within a mile or so of that? [LR350]

MARILYN HLADKY: The owner owned the property right next door to it. Yes, the adjacent property. [LR350]

SENATOR LOUDEN: They all did? [LR350]



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Revenue Committee  
November 18, 2011

---

MARILYN HLADKY: The other owner was a mile away and he was actually buying it for his son. And the third one was that farmer from...I looked it up. His closest land was three miles away. So they were all looking to increase what they owned to farm. [LR350]

SENATOR LOUDEN: I mean, in other words, this could be classified as nearby property? [LR350]

MARILYN HLADKY: It could be, but it's willing buyer, willing seller, arm's-length transition, sold on an open market on an auction. [LR350]

SENATOR LOUDEN: Why I know, but I mean land that's joined is worth more than land that is five or ten miles away. And that's what these guidelines are for. That's in statute and I'm wondering why that actually if you followed the statutes, and I've discussed this with Ruth Sorensen, these are in law, would two of those sales then not be qualified sales because they were bought by nearby land owners? [LR350]

MARILYN HLADKY: I think we would start to see that we wouldn't have any sales to use. You know... [LR350]

SENATOR LOUDEN: Then if you don't have any sales to use, then perhaps you don't have to raise the valuations. Did you ever think of that? [LR350]

MARILYN HLADKY: Well, I don't know how the state would come back to analyze us if we didn't use any of the sales and change our values. I mean, I don't have that answer for you, Senator Louden. [LR350]

SENATOR LOUDEN: Okay. Well, that's what we handle on the state side. Thank you for your testimony. [LR350]

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Revenue Committee  
November 18, 2011

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SENATOR CORNETT: Senator Adams. [LR350]

SENATOR ADAMS: Thank you. Thank you, Marilyn, for being here today and I don't know where to begin with questions because we've got to be upstairs here in a few minutes, which is unfair to you and probably other testifiers as well. You said...did I hear you right, you had 49 sales in the county that you could use for comparables yet the state went across county lines for comparables? [LR350]

MARILYN HLADKY: Yes. Yes. [LR350]

SENATOR ADAMS: And you're saying that you don't see the necessity of that particularly when you're looking at 49 comparables that you have here? [LR350]

MARILYN HLADKY: That is what I believe. [LR350]

SENATOR ADAMS: Did you also when you looked at some of those that the state was bringing in from other counties, did you sense that they were distorting your estimations, your analysis? [LR350]

MARILYN HLADKY: I did. And I have three market areas. I have one next to Lancaster which is greenbelt or special evaluation. I have my western, probably at least half, which is west of the Blue River which is the edge of the Ogallala aquifer, so that has irrigation potential as a market area. And that's where these 49 sales were. And then I have a middle area that's dryland with no irrigation potential and it was just a smaller area. My irrigated, a sale was borrowed from Crete which is the clearest far southeast corner of my county next to Lancaster. That, you know, in my mind was not a comparable sale. I had another one from Saline County that was used which had a lot of grassland in it and my land in my western half of the county is mostly all irrigated. I had a sale used in my dryland area from Butler County that was a dryland sale but it was totally surrounded,

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Revenue Committee  
November 18, 2011

---

when you look at the Butler County map, by properties that were irrigated, so it probably had irrigation potential. [LR350]

SENATOR ADAMS: What was the rationale if you felt that these were distorting your analysis? What rationale did the state have for reaching out to these particular comparables? [LR350]

MARILYN HLADKY: It's back to how many sales you have in the three years to make those number of sales more equal, is the way I understand it. [LR350]

SENATOR ADAMS: Okay. And I know we're running out of time, but I want you to correct me if I didn't get the sense of the bulk of your testimony right. But I heard you talk about the buildings and the 5 percent and the borrowing of sales, do I have a sense that what you are in part saying is that the state is overreaching in you doing your job inside of your county and potentially in the other 92 counties? [LR350]

MARILYN HLADKY: I would say that, yes. [LR350]

SENATOR ADAMS: Okay. Thank you, Marilyn. Go ahead and elaborate if you want. [LR350]

MARILYN HLADKY: I could address Senator Fischer's issue on the ag land board that we had in the past, so I don't know. [LR350]

SENATOR FISCHER: I would be grateful if you would. That was going to be my question to you. [LR350]

MARILYN HLADKY: Okay. Because I will tell you I'm the one that asked Senator Stuhr to introduce the bill to eliminate that board and the processes that were in place at that time was the state was divided into different areas. Each county had a person selected

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Transcriber's Office  
Rough Draft

Revenue Committee  
November 18, 2011

---

to represent that county. My area met two, at the most three times, usually in February after assessors had their values set. They got a piece of paper showing every 17 counties in their area, their values, and so forth. They had really no ability to sit there and to try to figure out how to equalize those values across county lines. Although they had the power to come back and say, oh, Seward, you're top irrigated is \$3,000 an acre and York is \$2,500, we're going to lower yours down to \$2,500 to have that cross county equalization. So if that order was issued back to me and I changed my values, I had to change my values, I had to turn around and resubmit what I call my abstract of assessment of values to the property tax administrator. They would reanalyze all of my statistics. They would probably come back and find out that I was no longer compliant with this new value that was adjusted for me. I would get a show cause order from TERC and would have to go down to TERC, and TERC by statute had to adjust me to midpoint, which in the end, if I was at \$7,200 and they lowered me down to \$7,800, TERC had an obligation to raise me to midpoint which was probably \$7,300, higher than what I was when I set the values myself. So I didn't feel like they had that ability and the time frame and understanding of that whole process to have that capability. [LR350]

SENATOR FISCHER: Okay. Thank you. [LR350]

SENATOR CORNETT: Further questions? Seeing none, thank you. [LR350]

MARILYN HLADKY: Okay. Thank you very much for your time. [LR350]

SENATOR CORNETT: Next testifier. [LR350]

JOHN KNAPP: (Exhibit 5) Senators, thank you for the opportunity to testify. My name is John Knapp, J-o-h-n K-n-a-p-p. I'm here representing Sarpy County Farm Bureau and that is the letter that I submitted. I'm also here representing myself and since we're really short of time, I'm going to just read some extracts. Part of the problem...besides the problems that have been pointed out, we thought that the mass appraisal of

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Transcriber's Office  
Rough Draft

Revenue Committee  
November 18, 2011

---

approximately 800 farm sites in Sarpy County with the \$64,000 value, and farm sites just across the county line in adjacent counties, appraised at one-third of the value would be a red flag and get the Department of Revenue's attention. We were wrong. We wrote letters to the property tax administrator pointing out the disparity and hoped they would follow their directive to ensure intercounty equalization. Instead they removed the directive telling us there was no need for one and they could not give special treatment to individual taxpayers. And the Department of Revenue indicated that the Sarpy County Board of Equalization had approved the assessors work as well as the TERC Board. And one of the points the TERC makes in denying appeals is that the County Board of Equalization and the Department of Revenue approves the assessors work. It does appear to us, at this time, that there is no equalization across county boundaries. The Sarpy County Board of Equalization hires professional appraisers to act as referees. This year they did not ask them to come in to explain their reasons for disagreeing with the assessor. An error in the procedural process required the Board of Equalization to come back for an emergency session and a Board of Equalization member, Jim Warren, asked the referees to attend. They were questioned on their recommended changes, but only the changes that the assessor agreed to were made. The Board of Equalization chairman, Tom Richards, said that the Board of Equalization had no guidance and that the assessor was elected to...by the people, and so the Board of Equalization was going to go with his call. And the majority of the board did. I believe that they are supposed to be a check and balance in the appraisal process. They also say that the Department of Revenue and TERC have upheld the assessors work. This sounds like a Catch-22 to me for a taxpayer and again it's a burden of proof on the taxpayer to prove his case before the Board of Equalization. Assessor...to get one of the questions earlier was on how to get the \$62,000 and TERC that in. He uses the theory of diminishing marginal utility and that's why it goes down the way it does on his basis. And as a Farm Bureau we believe it's important to have the intercounty equalization and the Department of Revenue and TERC Board given the necessary tools to get the job done. The Learning Community statutes make this imperative. The Sarpy County assessor claims to update assessments annually but Douglas County does not. That

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Rough Draft

Revenue Committee  
November 18, 2011

---

makes it that much more damaging to Sarpy County taxpayers who have their ground assessed at three times the amount of Douglas County land and have it updated every year. And I think it was Senator Fischer asked a question about how things in the future could be and land is supposed to be by statute assessed as it is today, not what it can be in the future. And I guess my time is up, so. [LR350]

SENATOR CORNETT: Questions from the committee? Seeing none, thank you. Next testifier. Can I see a show of hands for the remaining testifiers? [LR350]

CHARLES FRICKE: I'm Charles Fricke from Sarpy County, farmer. And hearing testimony of the assessor from Seward County, I would think that we need to be thinking about an income approach for farmland valuation rather than a sale price because with income, it would vary from year to year and create a much fairer situation. So that's my statement. [LR350]

SENATOR CORNETT: Just a comment in that we've been researching that. We did have an income approach for a while that was overthrown by the constitution by lawsuits. But it's how we would structure that and it has to be with its own pitfalls when income goes up high and then drops, you see just as much fluctuation. Questions from the committee? Oh, could you spell your name, sir, I'm sorry? [LR350]

CHARLES FRICKE: Charles Fricke, Charles, and then F-r-i-c-k-e. [LR350]

SENATOR CORNETT: Any further questions? Thank you very much. Next testifier. Ms. Sorensen, I believe you have a study that you were...did you provide to the committee? [LR350]

RUTH SORENSEN: I e-mailed the study. I don't know if it was printed. [LR350]

SENATOR CORNETT: Okay. That's fine. [LR350]

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Rough Draft

Revenue Committee  
November 18, 2011

---

RUTH SORENSEN: I don't know what time you need to go back, so. [LR350]

SENATOR CORNETT: Well, we have not reconvened, and like Senator Pankonin will be allowed a few extra moments because so many questions have been directed at you directly. [LR350]

RUTH SORENSEN: (Exhibit 6) Okay. I do have testimony that I just handed out. I'd be happy just to summarize real quick or if you want me to read through it. Basically, good morning--it's still morning--Chairperson Cornett and the Revenue Committee members. Thank you for allowing me to testify. My name is Ruth Sorensen, and I am the property tax administrator with the Department of Revenue. Basically, the testimony that I have there is just an overview of the statutory requirements on the department for equalization purposes. And every year the assessors go through and they value the property as of January 1 each year and they have to ensure that it (inaudible) out proportionate. Currently, the department is still responsible for the assessment function in seven counties. That will be going away in two years, and those counties are Dodge, Dakota, Garfield, Greeley, Harlan, Hitchcock, and Saunders. So by 2013, we will have no further assessment function in those counties. And I could address...I can jump to the 77-1371 question. This section was originally enacted to help determine whether a sale was an ongoing transaction and it is a guideline as has been emphasized here. But these guidelines, they need to be updated, you know, as Ms. Hladky has been testifying, we are seeing more and more intracounty sales. The property owners within the county are the ones that are purchasing agriculture land and so we do need to see those updated. The department does have a regulation. It's Regulation 12 that is a specific statutory...a specific guideline and it refers to more stringent guidelines that the assessors follow when they're determining whether a sale is a qualified sale. So 1371, I believe is outdated and we could rely on our regulation. And then the intercounty equalization question as far as when we reach across county lines, that is a measurement function. That is something that we do as a measurement function. It's

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Revenue Committee  
November 18, 2011

---

not for valuation purposes. The assessors can use whichever sales they would like for valuation. We use it for statistical purposes and for determining levels of value. And this promotes the assessment of equalization process and results in distributive valuation where you wanted the portion of it. And quite frankly, in 77-1327(5) for over 30 years the department has had the authority to do...reach across county lines to determine comparable sales. So I just wanted to summarize really quick there, I'll take questions so that I don't take up too much of your time. I'd be happy to have you read through my testimony. It just goes...it gives you an example of how the property is...happens to be in a political subdivision that goes across a county line. If you have higher values in one county, not the other, when the tax rate is applied to that political subdivision, the person with the higher value will pay higher taxes to that political subdivision. And so that's what we're trying to do is equalize those values. [LR350]

SENATOR CORNETT: Senator Utter. [LR350]

SENATOR UTTER: Thank you, Senator Cornett. Ms. Sorensen, since you were...nobody else raised their hand were going to testify behind you, I was...I guess I was kind of expecting the Sarpy County assessor may want to testify but evidently not. Give me the justification for using, in your mind at least, for him using the very highest first acre interpolated sale for that first acre valuation. Help me with that. Can you help me with that? [LR350]

RUTH SORENSEN: Well, these are values that are set at the county level and he did have a model that he used. I believe that was put into testimony earlier here. What the county assessor determines is if that person, and I think in Sarpy County it has to be five acres perhaps, you know, if that were to sell the five acres, would that be more valuable than the remaining of the acres. And the assessor goes through and looks at the sales and determines what's happening in the market. And it's up to the assessors to how they value it. Now we're focusing on the first acre, but we have to look at the valuation of the parcel as a whole. And we look at the valuation of the parcel as a



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Revenue Committee  
November 18, 2011

---

whole, it's very comparable to notice in surrounding counties. [LR350]

SENATOR UTTER: One more time. I'm a little slow. [LR350]

RUTH SORENSEN: If you look at the valuation of the property as a whole, like when I have discussed with property owners, okay, the valuation as a whole. Okay, you're singly out \$64,000 but the property as a whole may be \$210,000 value because it starts at \$64,000 and then second acre is different, third acre is lower, lower, lower, and you come up to a total value of \$210,000, hypothetically. That is comparable to other surrounding counties and parcels of that nature. But when you pull out the one acre, the \$64,000, yes, it seems to be, you know, go against what you're...you've got this puzzled look on your face like it goes against your logic, but if you look at the parcel as a whole and if you ask those property owners would they sell it for that amount, they would say no. They would want more money than the (inaudible). [LR350]

SENATOR UTTER: I guess the problem I'm having is that, even if it is a five acre parcel that you're talking about and we're racheting down those valuations, \$210,000 for a five acre parcel seems like an awful lot of money. So just the land then? [LR350]

RUTH SORENSEN: Well these parcels are...no, these parcels are much more than five acres. All these parcels are quarters and quarter sections and much larger. [LR350]

SENATOR CORNETT: Senator Adams. [LR350]

SENATOR ADAMS: I guess marginal utility or looking at the total property, I'm still struggling because if you're looking at the first acre, and if it's not worth \$64,000, it's not worth \$64,000. [LR350]

RUTH SORENSEN: But I think...was there testimony that you could never sell just the one acre? I believe there was because there's zoning restrictions in the county. [LR350]

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Revenue Committee  
November 18, 2011

---

SENATOR ADAMS: Which then depreciates the value of. [LR350]

RUTH SORENSEN: I'm not the Sarpy County assessor. I apologize, I can't explain his model to you. (Laugh) [LR350]

SENATOR ADAMS: Fair enough. [LR350]

SENATOR CORNETT: I was just going to make a point. You cannot control that assessment. That dispute would go to TERC, correct? [LR350]

RUTH SORENSEN: That is correct. [LR350]

SENATOR CORNETT: You don't have any control on that issue. [LR350]

RUTH SORENSEN: That's absolutely correct. Thank you, Senator. [LR350]

SENATOR ADAMS: May I ask another question? [LR350]

SENATOR CORNETT: Yes. [LR350]

SENATOR ADAMS: About reaching across county lines. You use the word "measurement" rather than "valuation." Help me out. I don't understand what you mean. [LR350]

RUTH SORENSEN: The county assessors value the properties in their counties, residential, commercial, and agricultural. And we as the oversight agency determine...we write a report and opinion every year for the Tax Equalization and Review Commission. There are statistics that we determine...that we use to determine a level of value for each of those classes of property. And those are based on the sales

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Transcriber's Office  
Rough Draft

Revenue Committee  
November 18, 2011

---

that are in the state sales file. And so when the assessor values, they are the elected official. They should value how they value their properties. And when we come to measure, we are going to look at comparable areas and use those sales that are comparable. I mean, you've got to consider if there are NRDs, if there's any water restrictions, any of those sorts of things. Is it a...we call it a 994 county where it's all special valuation. There's a lot of different marked characteristics that we have to look. We take that into account when we do the statistical reports to the Tax Equalization and Review Commission and determine the level of value. [LR350]

SENATOR CORNETT: And this is only for equalization, correct? [LR350]

RUTH SORENSEN: It's only for statewide equalization, that's correct. [LR350]

SENATOR CORNETT: That's the point that we need to keep in mind. And I believe that Ms. Sorensen has e-mailed everyone a copy of a study that has been done in regard to this. Senator Louden. [LR350]

SENATOR LOUDEN: Thank you, Senator Cornett and thank you, Ms. Sorensen for coming here because there was some...first question that I would like to have clarified for the record, is the valuation of this first acre, the property tax administrator doesn't have anything to do with that, is that correct? [LR350]

RUTH SORENSEN: That's correct. [LR350]

SENATOR LOUDEN: Okay, because this is for the...the problem comes down a lot of times out in our counties here, they say, oh, we've got to raise our valuation of our first acres because as you know, Sheridan County and the county assessors nearly went to court over it and they finally gave it up because it was going to cost Sheridan County to pay for the lawyer anyway, either way, so they gave it up, but that was the question. The county...that is solely the county assessor that decides the valuation of that first

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office  
Rough Draft

Revenue Committee  
November 18, 2011

---

acre? [LR350]

RUTH SORENSEN: The county assessor determines the values in the counties, correct. [LR350]

SENATOR LOUDEN: Okay. Good enough. Now the next thing when you talk about doing away with these guidelines in 77-1371, completely doing away with them, or some to be modified, or where should that lead? [LR350]

RUTH SORENSEN: They're guidelines and the assessors follow many guidelines. They follow IAAO, they professionally accept a mass appraisal techniques. We have Regulation 12 that sets forth the sales file practice and they're guidelines and because we are seeing a change in the agricultural area, they could be removed. Because if you're going to single out, okay, if this is a mile away, you can't use the sale, then we wouldn't have any sales and we're a market value state. So we have to use the market as the market. [LR350]

SENATOR LOUDEN: Well, if you didn't have any sales, then perhaps as I mentioned before with the Seward County assessor, if you don't have anything to go by, then maybe perhaps you don't need to revalue the land for that year. [LR350]

RUTH SORENSEN: Statutorily, they have to update the values January 1 of every year. [LR350]

SENATOR LOUDEN: Well, you could update them but if you don't have anything to go by, then they would stay the same, I guess, is what I'm pointing out. The valuations wouldn't necessarily have to increase. [LR350]

RUTH SORENSEN: That would cause a lot of harm to the tax burdenship thing and those sort of things if we would not to look at what's happening with those sales that are

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Transcriber's Office  
Rough Draft

Revenue Committee  
November 18, 2011

---

creating a market. [LR350]

SENATOR LOUDEN: In other words, you're saying it cuts your number of sales down so you wouldn't be able to operate by using some of these guidelines when you have nearby sales of some of those that are deleted. That's what you're telling me, you need all of those sales that you can possibly find in order to come up with a value on the property. [LR350]

RUTH SORENSEN: Well, for instance, and this is not the case in Nebraska, but if you're...what some areas are seeing in the United States, the foreclosures are making the market. And if you couldn't use the foreclosed sales, you wouldn't know what's happening in the market. And so that's an example, is foreclosures. And that's creating a market in some areas. And so here we have owners of property in the county that are bidding high to buy the property within the county and it's an arm's-length transaction. It's a valid sale. So it's the property owners that are raising the value of the property. [LR350]

SENATOR LOUDEN: Well, I agree. And in your comparable sales, or your guidelines, it mostly just sets different sales that were not to be used. And what I'm wondering if that isn't in statute or something similar to that in statutes, what does the average person have to protect themselves about your assessors, or these people, or anyone valuing this land every year or out of sight or whatever. I mean, that's the only protection they have is probably these guidelines, the average person out there. Because otherwise you're using these from this international organization and those are all organizations that the assessors and those people belong to. What I'm saying is, that somewhere along the line we have to have some protection for the average person that they can find out what their valuation can be maximized at. And I guess, what would you say, it's about like turning the wolves on the sheep. Otherwise, the only protection we have is the bunch up in the corner and let the weak ones get ate. And that's the reason I'm wondering if we need to still have these guidelines. I understand they need to probably

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office  
Rough Draft

Revenue Committee  
November 18, 2011

---

be brought up-to-date. And do you have any recommendations on which ones should be adjusted, or do you want to kick the whole bunch out and throw them all away?

[LR350]

RUTH SORENSEN: I haven't reviewed them, each specifically, to say which one needs to be adjusted. I just want to point out to the committee that there are regulations and there are standards. And they also have to...the assessors also have to have use path and go through the real estate appraisal board for use path, but we can't maximize values. That is not allowed in the Nebraska law. So to maximize value, we just could not do that and we can't sales chase either. So if a sale occurs, we can't go after that sale and use that as the value for that sale. [LR350]

SENATOR LOUDEN: Are there sales that you feel shouldn't be used for comparables analysis? [LR350]

RUTH SORENSEN: If they're not arm's-length transactions, yes. And the property owners have due process rights that protects them. And they can...if an assessor is valuing their parcel unfairly, they can bring in comparable sales to the County Board of Equalization and they can also bring it to the Tax Equalization and Review Commission. [LR350]

SENATOR LOUDEN: Now do you feel that these 1031 tax deferred sales should be used as a comparable for their use? [LR350]

RUTH SORENSEN: Depends on the facts surrounding the 1031. I can't rule them out completely. I would have to get the facts and the background. And the assessors are to be sending sale questionnaires out to the buyers and sellers. Now I know the buyers and sellers don't always return those but those questionnaires are helpful and you can look at the facts. [LR350]

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Transcriber's Office  
Rough Draft

Revenue Committee  
November 18, 2011

---

SENATOR LOUDEN: Now when people...when a land transaction is done and there's a...oh, a lot of times there's cattle involved, machinery, or something like that, and that's all a turnkey operation and those people that file that, what you call a 527 or 525, whatever that thing is, should there be something in statute to say how much they're valuing each parcel or each part of that transaction such as the cattle, the machinery, the buildings, or something like that? Should there be something in statute to point that out that that has to be followed? [LR350]

RUTH SORENSEN: I would hesitate to put something like that in statute, but again that...it would be up to the Legislature. And like I said, the assessors are very good at sending out their sales (inaudible) questionnaires and it has those types of questions on it. And if the property owners would just, you know, provide that information, it is helpful. [LR350]

SENATOR LOUDEN: Last question. Do you as a property tax administrator have any jurisdiction to oversee that the list that the county assessor send to you on the sales that they're using? In other words, can you delete some of those off the list or add them, or if they delete them, can you put them back on their list? [LR350]

RUTH SORENSEN: For valuation purposes? [LR350]

SENATOR LOUDEN: Yeah. [LR350]

RUTH SORENSEN: The assessor values and they can use the sales that they would like to use for valuing. What we oversee is the state sales file. If they determine that a sale is disqualified and they mark it as disqualified, and they don't want us to use it in our measurement process to create their statistics, we can review that with the assessor and discuss that with the assessor and change that disqualification code. But they're aware of that. We always work with the assessors very closely. [LR350]

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Transcriber's Office  
Rough Draft

Revenue Committee  
November 18, 2011

---

SENATOR LOUDEN: Okay. But you do have authority to change the qualification...  
[LR350]

RUTH SORENSEN: Just in our state sales filing, not for valuation purposes.  
Those...assessor's value. [LR350]

SENATOR LOUDEN: Okay. Thank you. [LR350]

SENATOR CORNETT: Senator Utter. [LR350]

SENATOR UTTER: Ms. Sorensen, one more question. Before you arrived Senator Pankonin held up a map and discussed the first acre sales values among neighboring counties to Sarpy County, and I guess, really the entire urban-Lincoln, Omaha-urban area. And there seemed to be a wide disparity between Sarpy County on the very top and other counties much lower below that. One of the goals of equalization should be to smooth that. Is there something that needs to be done statutorily that would prevent a piece of property at \$64,000 first acre valuation on one side of the road, right across the road maybe a very similar property with a \$19,000 valuation? Somehow or another it just doesn't seem to me like from the first acre concept that those figures follow. What needs to be done to make this a fairer process for property owners in adjacent counties? [LR350]

RUTH SORENSEN: I'm not sure what you could propose to take care of that. I can tell you that for equalization purposes, we don't go down to first acre. We do agricultural land as a whole. We don't go into first acre, homestead exemptions, we don't equalize all of that. What we do is we look at agricultural land, is the example you're using here, we look at dry, irrigated, and grass. And we equalize on that level. We don't get down into, you know, rural homesites or farm sites or (inaudible), that sort of level. So it's an overall...so when you hear anybody saying that there's no way the property tax administrator can determine that the level of value for the first acre is this. That's not



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Rough Draft

Revenue Committee  
November 18, 2011

---

what is being determined at statewide equalization. It is the class as a whole. [LR350]

SENATOR UTTER: Thank you. [LR350]

SENATOR CORNETT: Then I have one question. I know this is not your purview but this is an area that you are very knowledgeable in. When I read the statute that we passed in 2008, and again you weren't here, but it was Senator Hudkins bill, I believe. [LR350]

RUTH SORENSEN: LB777, I believe. [LR350]

SENATOR CORNETT: If you say so, I'd have to go back to my... [LR350]

RUTH SORENSEN: Yes. Okay. [LR350]

SENATOR CORNETT: It said that it was for agricultural land use, for agricultural land only. I have it highlighted here somewhere. What we heard testified, though, was because there was a lack of comparable sales in Sarpy County, that that \$64,000 valuation was determined by using sales from maybe residential acreages or acreages that were primarily agriculture, but were maybe part of an SID and had other improvements. Is that your understanding also? [LR350]

RUTH SORENSEN: That's my understanding with talking with property owners and the county assessor, correct. [LR350]

SENATOR CORNETT: Do we need to look at changing the way the statute is written to...or to exclude residential acreages from comparables with ag land? Because they really are not the same thing, are they? [LR350]

RUTH SORENSEN: Well, I...some assessors do consider them to be very similar

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office  
Rough Draft

Revenue Committee  
November 18, 2011

---

because if, for example, in a county where you could buy a three acre or a five acre if there's zoning allowed, if that were to sell as a three or five acre, it may be very similar to a rural residential property. So some assessors may look at the rural residentials as comparables. And so that's...it would be very difficult. [LR350]

SENATOR CORNETT: Again the issue we're coming down to is, we have working farms that are being treated the same as a residential acreage that may have improvements, like an SID have sewer, have paved roads, so forth and so on. Should those be, being compared? I'm not saying that they...what they can be done under the current law, but should those be used? [LR350]

RUTH SORENSEN: Well, again... [LR350]

SENATOR CORNETT: Because I know you're talking about...okay, the farm can used future for residential acreages in future years but I'm talking about current use, working farm, residential acreage. [LR350]

RUTH SORENSEN: The current use as a working farm. And again some assessors do consider them to be very comparable. And you got 93 counties, and how you would change the statute so if you change it for one county, how it's going to affect the other 92, I can't tell you that right here. But again, these are large parcels and they do have the farm site and then they have the agricultural use and they do apply for special valuation and get the special valuation on those remaining acres. [LR350]

SENATOR CORNETT: And I understand that because that's what brought about the bill about in 2008 was...and I remember the whole discussion about how we wanted to be able to do that even for your smaller farms and your organic farms and your vineyards and that's why you wanted to be able to give those smaller farms the special land valuation. [LR350]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office  
Rough Draft

Revenue Committee  
November 18, 2011

---

RUTH SORENSEN: The ability to apply for special valuation. [LR350]

SENATOR CORNETT: Senator Fischer. [LR350]

SENATOR FISCHER: Thank you, Senator Cornett. I want to follow-up on Senator Cornett's questions if I can, Ms. Sorensen. Shouldn't county assessors be valuing land as it is now instead of the potential of what it could be? Shouldn't ag land be valued as ag land whether it has a home and outbuildings on it? Shouldn't that be part of the ag land valuation instead of the idea that it could be subdivided in the future because it happens to be near a metropolitan area so it could be subdivided and so we should look it as maybe having a different purpose? Do we need to clarify that, that ag land is ag land? [LR350]

RUTH SORENSEN: Ag land is land. And when you look at...whether one acre comes in, is the homestead exemptions. When a lot of these persons, maybe not in Sarpy County, but a lot of persons that live on farms apply for homestead exemption as well. And so we have to narrow that... [LR350]

SENATOR FISCHER: Do we need to clarify that then? Should we be giving more guidance to our county assessors as to what the intent of the Legislature is with regards to these statutes? [LR350]

RUTH SORENSEN: We do that in our directives and our regulations. We give them the direction that we understand the Legislature intent was. And again, like I indicated, that acre comes in for other purposes other than just agricultural land valuation. [LR350]

SENATOR FISCHER: But should we clarify it then? Maybe it's not clear in the rules and regs and maybe it should be clear in statute. [LR350]

RUTH SORENSEN: We sure could take a look at that. [LR350]

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Transcriber's Office  
Rough Draft

Revenue Committee  
November 18, 2011

---

SENATOR FISCHER: Thank you. [LR350]

SENATOR CORNETT: Senator Schumacher. [LR350]

SENATOR SCHUMACHER: Just a couple of quick questions. First of all, the valuation generally in market price reflects anticipated future appreciation due to it maybe developed into an urban area, doesn't it? So the market price has all that already calculated in. [LR350]

RUTH SORENSEN: Some purchasers do take that into account, I believe. [LR350]

SENATOR SCHUMACHER: And secondly, in a county such as Platte County where we fought and still fight zoning, is the first acre thing an issue where you do have sales off of an acre off a corner of a section? [LR350]

RUTH SORENSEN: I'm not familiar if Platte County has concerns. [LR350]

SENATOR SCHUMACHER: So the...part of the problem of this first acre thing is coming about by the fact that you got to sell the whole chunk, is that an accurate...am I interpreting that right? You have to sell the whole 160 or 80 or whatever? [LR350]

RUTH SORENSEN: I don't believe so. I'm not really following. So the first acre is coming from selling the whole parcel is that your question? [LR350]

SENATOR SCHUMACHER: Well, maybe I'm missing the point entirely but the impression I get here today is that the problem in Sarpy County, for example, is you can't just sell the one acre to get a value for it, so you arbitrarily start picking out a lot someplace and then applying it. [LR350]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office  
Rough Draft

Revenue Committee  
November 18, 2011

---

RUTH SORENSEN: Well, I don't believe the county assessor arbitrarily selected lots. What they did was look for sales that they considered to be comparable and that's what the assessors are responsible for doing. There's also...they do also do some spot adjustments as well. Or not...they're not spot adjustments but they do have some considerations where they do lower, give 10 percent lower for certain areas like being on a road or something like that, so. [LR350]

SENATOR CORNETT: Back to Senator Fischer's question. If we were talking about defining. [LR350]

RUTH SORENSEN: Yes. [LR350]

SENATOR CORNETT: Do we need to define comparable? [LR350]

RUTH SORENSEN: Well, you have 77-1371. That is the guideline. [LR350]

SENATOR CORNETT: Do we need to include language in there to define? [LR350]

RUTH SORENSEN: It's going to change as you go county to county, and it would be very difficult to come up with a exact comparable sale definition for all 93 counties. [LR350]

SENATOR CORNETT: Oh, I'm sorry. Senator Hadley. [LR350]

SENATOR HADLEY: Just one quick question. Why do we have to kind of value the first acre in a working farmstead? Why not just consider it part of the agricultural land and maybe not...it doesn't get the reduction but it's just part of the farm. Kind of a theory behind the first acre, is there a theory behind the first acre concept? [LR350]

RUTH SORENSEN: Well, you would have to ask the county assessors about that but

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office  
Rough Draft

Revenue Committee  
November 18, 2011

---

what I see is the homestead exemption. [LR350]

SENATOR HADLEY: The homestead exemption. And if we didn't do this, there could be concerns with people getting a homestead? [LR350]

RUTH SORENSEN: Well, there's not concern but when you apply for homestead exemption, it's limited to those acres, not the parcel as a whole. [LR350]

SENATOR HADLEY: Okay. So maybe we need to look at... [LR350]

SENATOR CORNETT: It came about because, pretty much what she said, is you couldn't get a homestead exemption on the entire property so we brought the house basically out of the homestead equation. [LR350]

SENATOR HADLEY: So what we're saying is that we have to be very careful because maybe the...in crafting legislation because Sheridan County may be completely different from Sarpy County in the first acre concept and if we craft legislation, it's going to apply to 93 counties. [LR350]

RUTH SORENSEN: Absolutely. Yeah, it does. [LR350]

SENATOR CORNETT: Senator Louden. [LR350]

SENATOR LOUDEN: Yes, following Senator Hadley's line here. On your homestead exemption, why couldn't your homestead be exemption, just be the valuation of that house because the house is valued on that property? [LR350]

RUTH SORENSEN: You'd have to look at the homestead regulations. I believe it's more than just the house. I believe there's some acres in there as well. [LR350]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office  
Rough Draft

Revenue Committee  
November 18, 2011

---

SENATOR CORNETT: The property on the house is...I mean, sits on, is included also in that. [LR350]

RUTH SORENSEN: The land. Yes. [LR350]

SENATOR CORNETT: Senator Pirsch. [LR350]

SENATOR PIRSCH: Just so that I'm understanding you clear, so one of the first testifiers here today came in and spoke of what he considered massive fluctuations in terms of what he considered comparable properties. I think he said Cass County, \$18,000, and in Sarpy, \$64,000. The fluctuations in which he spoke of, really if you were to drill down and look at the comparability, those would not exist that those...in other words, those price discrepancies that they talk about different properties, or are you saying that there are different methodologies do exist from county to county and are leading to different results? I think you're saying the first, right? That there is a consistency that does exist that is kind of hidden by these figures that the \$18,000 in Cass as opposed to \$64,000 in Sarpy? [LR350]

RUTH SORENSEN: What I was indicating is the assessors do value, you know, (inaudible) proportionately, and also if you looked at the parcel as a whole instead of breaking it out by acre by acre by acre, as a whole we don't see a big variance between the counties. [LR350]

SENATOR PIRSCH: Okay. Thank you. [LR350]

SENATOR CORNETT: Further questions from the committee? Seeing none, thank you. [LR350]

RUTH SORENSEN: Thank you very much for your time. [LR350]

Transcript Prepared By the Clerk of the Legislature  
Transcriber's Office  
Rough Draft

Revenue Committee  
November 18, 2011

---

SENATOR CORNETT: Are there any further testifiers? With that, that will conclude the hearing today. [LR350]