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Revenue Committee
February 04, 2016

[LB717 LB940 LB958]

The Committee on Revenue met at 1:30 p.m. on Thursday, February 4, 2016, in Room 1524 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LB958, LB717, and LB940. Senators present: Mike Gloor, Chairperson; Paul Schumacher, Vice Chairperson; Lydia Brasch; Al Davis; Burke Harr; Jim Scheer; Jim Smith; and Kate Sullivan. Senators absent: None.

SENATOR GLOOR: Good afternoon. We're going to get started. Thank you. Thank you for quieting down so quickly. I should have been an educator. I'm Senator Mike Gloor, District 35, which is Grand Island, and I'm Chair of the Revenue Committee. We'll take the bills today in the order listed on the agenda posted outside the door. Some unwritten rules and written rules, for that matter, about testifying and how the process goes: These are wonderful little instruments and inventions, but they can be a distraction so please do what I'm doing--check to make sure that it's on mute or turned off--so that we don't have that disruption going on during the hearings themselves. When you're ready to testify, move, if you would, as far to the front as you can--and I understand the room is busy today; I'm glad I made that suggestion--so that we're not doing a lot of back and forth and back and forth here. The order of testifying is that the introducer of the bill, the senator who introduced it, will do an opening. We'll then go to proponents, opponents, and those in a neutral capacity. For those of you here for LB958, there has been some question about going back and forth between proponents and opponents. Frankly, I don't know that there are so many proponents for this bill that that needs to be an issue for us at this period of time. But we'll sort of play it by ear and see when the...as the afternoon goes on whether that's necessary. If it appears to be the case, we certainly, from the interest of fairness, will consider going back and forth. We need all the testifiers, if you're going to testify, to sign in. There are sign-in sheets in the back. Fill that out, be sure and hand it to Krissa, our clerk. When you sit down to testify, we need you to give us your name and then spell it out for us so that we get it accurate for the record. We are, because of the number of people who wish to speak today, working with a three-minute time limit. That means when you start the light will be green; when you have a minute left, it will go to yellow; and when it's time for you to wrap up, it will go red. Please try and wrap up as quickly as you can, and I will help you along those lines politely if necessary. If you're not going to be testifying but would like your stand on this to be known, there are also sign-up sheets in the back where you can let your stand on this particular bill be known. If you have handouts, we need 11 of those handouts. Give those to the pages and we'll get those distributed. If you just now realize you don't have 11, now would be a good time to catch the eye of the pages so we can get them making 11 copies for you. Please speak into the microphone as best you're able, and that's a bit of advice I give also as a reminder to the senators so that we're able to pick up all the comments people make. To my immediate right is committee counsel, Mary Jane Egr Edson. Kay Bergquist is the research analyst down on my right. And

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Krissa Delka is the clerk at the far end of the table and the one you want to give your sheets to. I'll ask the committee members to introduce themselves starting with Senator Scheer. [LB958]

SENATOR SCHEER: Jim Scheer, District 19, which is Madison and a small portion of Stanton County. [LB958]

SENATOR SMITH: Jim Smith, District 14 in Sarpy County. [LB958]

SENATOR SULLIVAN: Kate Sullivan of Cedar Rapids representing District 41, a nine-county area in central Nebraska. [LB958]

SENATOR SCHUMACHER: Paul Schumacher, District 22, that's Platte and parts of Colfax and Stanton Counties. [LB958]

SENATOR BRASCH: Lydia Brasch, District 16, Burt County, Cuming County, and Washington County. [LB958]

SENATOR GLOOR: And we'll have other senators who join us. Some of you know, some of you may not, that senators just because they're serving on this committee have other bills that come up in other committees that they need to introduce so there is some coming and going. And so I expect Senators Davis and Harr will join us when their schedule of presentation allows. So don't read anything to people coming and going, certainly as relates to your comments. We have I believe today our pages are Alex from Aurora and Brenda from Wakefield and here to help you as well as help us. With that in mind, we will start with the first bill, LB958. And I will, for a brief period of time, turn the gavel over to Senator Schumacher who will convene the meeting while I open. [LB958]

SENATOR SCHUMACHER: Senator Gloor, welcome to your committee. [LB958]

SENATOR GLOOR: Thank you, Senator Schumacher. You do that so well. I'm Senator Mike Gloor, G-l-o-o-r. This committee knows that I usually open the discussion on property taxes with a bit of a preface that's a historical preface. It goes back to the work done by the Revenue Committee back in 2013, and a few of you served on that Tax Modernization Committee. One of the unfinished bits of business that came out of that had to do a recommendation that we were too dependent upon property taxes to fund K-12 education and should look at state dollars going in to correct that change. And so this past interim Senator Sullivan's Education Committee, this committee sat down together and began to look at that issue specifically. And this would be an appropriate time I think to thank this committee for, and staff, for its time and effort during the

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interim. You put in a lot of time and hours and energy during a time of the year where most Nebraskans think we go into hibernation. And certainly this committee did not go into hibernation and deserves to be recognized for the work they put in during the interim. We also had an opportunity as we sat down and took a look at this issue to begin working collaboratively with the Governor and his staff, which was a great opportunity for us to share the thoughts that were coming out of our work with the Governor and his staff. And frankly, that's what we ended up with when you take a look at LB958 and the general themes that came out of that discussion, which were we do need to increase state aid to K-12 and that increase is fruitless if what happens to those additional dollars is that they end up being absorbed into budgets rather than finding their way back to property taxpayers. We can't have both working and expect that this problem ends up being resolved. This is not fixing blame. And certainly I've had a lot of discussions with a lot of individuals about this is not a blame game for us, but it's one of the realities of dealing with property tax relief. In general, here's how LB958 seeks to do that. It does not remove any funding mechanisms for local government. The legislation does tighten up spending limits on local governments, removes exceptions and places them under the levy lid. It still allows local governments to exceed levy limits with a vote of the people. Valuation--this is a 3 percent aggregate annual adjustment and not a hard cap. This means individual property owners will see a variety of different increases or decreases in property valuations from year to year. The 30,000-foot level, that's LB958. I was pleased to introduce it on behalf of the Governor. And I'll now turn this seat and microphone over to the Governor; and he'll be followed by the Property Tax Administrator Ruth Sorensen, who is here to help us with some of the more technical questions that we may have. Thank you. Good afternoon, Governor. [LB958]

PETE RICKETTS: Good afternoon, Chairman. I'm Governor Pete Ricketts, P-e-t-e R-i-c-k-e-t-t-s. Let me know when I can begin. [LB958]

SENATOR GLOOR: You can begin, sir. [LB958]

PETE RICKETTS: All right, great. Well, thank you very much, Chairman Gloor and all the members of the committee, for the opportunity to be here today and also for all the work that you did in the interim over the summer and the fall working together with the Education Committee to really talk about these important issues we face here. And in particular, I want to acknowledge the leadership and thank Chairman Gloor for his leadership and Chairwoman Sullivan for her leadership on the Education Committee to bring us all together to talk about this. Property taxes are absolutely the number-one issue people talk to me about. As I travel the state, last fall I did 20 town halls, I did 10 cities when I flew around the state after the State of the State, I travel the state weekly. I was just in Chadron earlier this week. Property tax is what people talk to me about, whether you're an urban voter or a rural voter. And we made great strides last year along these lines. Working together, we cut the growth of government. We cut it nearly in half from 6.5 percent growth in the last budget to 3.5 percent growth in this current budget. And that's

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important because the only way we can have sustainable tax relief is by controlling the size and growth of government. And because we controlled growth, we were able to increase the Property Tax Credit Relief Fund by over 45 percent and will deliver \$408 million in direct dollar-for-dollar property tax relief in this budget. That's a great win for taxpayers. But I'm sure you all heard and certainly I've heard from our constituents, people want structural relief to property taxes. I know that's what a lot of you talked about over the course of the interim. And it's important to remember that these are not our dollars. These are the hardworking dollars of taxpayer...of Nebraska families, that we need to be transparent and, of course, we must control government to be able to deliver that tax relief. LB958 does all of that. LB958 seeks to encourage that fiscal restraint among local entities because, of course, we at state government, we don't actually collect any of these property taxes. They're all collected by local entities. But we do set the rules for how these taxes are collected, and that's what our constituents want us to address. They want that structural tax change. They want us to look at the rules to assist in that fiscal restraint. And LB958 does this by removing some of the exceptions to spending limits and levy lids and also looking at a limitation of 3 percent aggregate growth in ag land across the state. This is important because it does not get in the way of anybody's funding. Certainly all these entities can go get additional budget authority by going back and asking for that authority from the taxpayers directly through a vote of the people. It's a balanced approach. It's an incremental approach. It's a measured approach. I think it strikes the right balance. Certainly as I've talked to folks about this, I've talked to farmers and ranchers who said, well, it doesn't do enough. And as I'm sure you're going to probably hear a little bit later today, I've talked to city and county officials, they say, well, this goes too far. To me, that says we've kind of hit the right balance here. And this problem is not going to go away. We need to address property taxes in this session. And while I know there's a number of different ideas out there with regard to how we can address property tax relief, and certainly I am willing to discuss any amendments to this bill to make it an even better bill, I think it's important that we remember not to let the perfect become the enemy of the good, that we must accomplish tax relief. We are the leaders of the state. Our taxpayers, our citizens are demanding that we address property tax relief. And so as leaders, it's incumbent upon us to address that. And so I think it's important that while we look at the different things we can do, we keep in mind that we've got to address this important issue for our taxpayers. It's their money. This bill does it in a very incremental way, in a balanced way, and does it in a way that increases accountability to local taxpayers. So thank you all again for what you have done in pulling together to look at these important issues, to really talk about how we can deliver that tax relief to our citizens. I'm very happy now to open it up and take questions. Did I stay within my three minutes? [LB958]

SENATOR GLOOR: You know, we didn't bother to put a clock on you because we knew you would. Are there questions for the Governor? Senator Smith. [LB958]

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SENATOR SMITH: Thank you, Mr. Chair. And thank you, Governor Ricketts, for being here and for the introduction. I think probably some of us around the table up here have received e-mails and contacts from particularly some of our cities and our communities across the state. And I want to bring up a couple of points that they've brought up and see if you'd like to respond; or anyone following you in testimony, they can respond as well. One is that many of them feel that since it is a local issue, a local spending issue, a local constraint issue on spending that they do not feel that they were included enough in making the decisions as to what changes were made. Can you speak to that at all? And then also on the side of agriculture, the constraint on valuation increases on the agriculture side, any particular reasons that nothing was included in there for nonag business and homeowners? [LB958]

PETE RICKETTS: Sure. So again, with regard to this particular bill and other amendments to improve it and make it an even better bill, again, I am all open to those sort of specific suggestions on how we do this. Certainly, I think that there was a lot of work done by the different committees, as you know. You know, your committee met with the Education Committee on developing and talking a lot about the different ideas. And certainly Chairman Gloor referenced the Tax Modernization Committee as well. So I think there's been a lot of ideas that have been talked about and boiled out there. But the process isn't over so I think there's still lots of opportunity to be able to say, hey, if there's specific things in here, let's talk about them. I think when it comes to the ag land valuations, what we have seen over the last five years is a 66 percent increase in the amount of taxes paid by ag land property owners. Okay, that's not assessment; that's not valuation; that's dollars paid. Over the same period of time, commercial and residential homeowners have seen their bills go up about 8 percent. So I think if you look at it from the standpoint of a fairness thing here, we've seen a much greater impact on ag land users. And again, you know, what we're really looking to do is really target that 3 percent growth. You know, we're really not asking local government to do anything we're not doing at the state already. Right? We in our budget last year really were targeting that 3 percent growth. We got to 3.5 percent, great strides. That ag land growth at 3 percent is really along the same lines. It's really looking at that 3 percent target for how we want to think about how we grow government. So I think it's important that we look at it from that standpoint of what's happened over the past few years and also from the standpoint that agriculture is our number-one industry here in Nebraska. And I can tell you as I've traveled the state, in fact, when I was in North Platte just a couple of weeks ago, a farmer came up to me and said, my ag land valuation went up 38 percent and my bill went up 36 percent. She said, I can't...I won't be able to keep my family farm if this continues, and we've had this farm for generations. And again, if we hamper our largest industry here in the state, we really are hampering our ability to grow the state. [LB958]

SENATOR SMITH: Thank you, Governor. [LB958]

PETE RICKETTS: Thank you. [LB958]

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SENATOR GLOOR: Other questions? Senator Harr. [LB958]

SENATOR HARR: Thank you. You have called this an incremental step. Is that correct? [LB958]

PETE RICKETTS: Yes. I believe the plan is incremental. [LB958]

SENATOR HARR: Incremental. I guess my question is, what is the next step that you see in tax policy and where do you see us in ten years? [LB958]

PETE RICKETTS: Well, I hope in every year of my administration we're addressing tax policy and making tax cuts for people in Nebraska. I'd like to get this done with regard to property taxes, as it's a structural change for how we assess, you know, those rules on property taxes. I think we also need to start addressing income tax as well. We're a high income tax state relative to the states around us. And again, the key to all of this tax relief is controlling spending. That's what we've done here at the state level, and that's what this bill, LB958, really seeks to do is encourage that fiscal restraint. [LB958]

SENATOR HARR: And maybe I didn't ask this properly. In ten years, do you see property tax remaining as large a percentage of the overall tax burden as it is today? Do you see it lessen? Do you see income tax more or less, sales more or less, if you know? [LB958]

PETE RICKETTS: Well, I think it's very difficult to predict exactly where things are going to be ten years from now. I think, for instance, you know, when we're looking at what we're talking about here, really targeting the growth of government around 3 percent, it's appropriate for the conditions we're in right now. If those conditions were to change very radically, then that might change as well. But I think it's important that we take that step every year to be able to make that difference in property tax relief. We know we have an issue right now with regard to property taxes because our constituents are telling us that. And if we, you know, continue to make progress on this year after year, we can start making a dent on where we are ten years from now. [LB958]

SENATOR HARR: Yeah, and... [LB958]

PETE RICKETTS: So I don't have a projection on how much it should be and where. [LB958]

SENATOR HARR: Well,... [LB958]

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PETE RICKETTS: I think that will really depend upon a lot of, you know, how we end up, you know...where, what the conditions are, and how the constituents of the state are telling us they want to be taxed. [LB958]

SENATOR HARR: Yeah. Well, I guess you should always start with the end in mind is always how I try to frame things. And I'm just trying to figure out what this would do, what is the end we're trying to obtain. I get it, it's lowering property taxes. But is it to get it to the one third, one third, one third? Or is it...where do you see property taxes fitting within the overall budget scheme? Is it...how much should we be relying on property taxes versus income versus sales? [LB958]

PETE RICKETTS: Well, I am somebody who believes that we got to make incremental steps at a time and the conditions will change. So I can't give you a firm answer on where that is actually going to end up and where it's going to be. I can tell you though the only way you can get tax relief is by controlling spending. And that's what this bill does. It controls spending. So, I mean, you know, I know our constituents, the same ones that live all across the state, are asking for property tax relief. And that's what this bill does and that's why I think it's important that we deliver it in this session, this session. [LB958]

SENATOR HARR: Okay. Thank you. [LB958]

SENATOR GLOOR: Other questions? Governor, what was the genesis of the 3 percent aggregate in growth? Was this something that was modeled off something that was tried in another state or something you and your staff took a look at and decided this was the best way to approach the slowdown in ag valuations? [LB958]

PETE RICKETTS: So as I mentioned, one of the things we've seen is a huge increase in ag land valuations and that has put a lot of stress on our farmers and ranchers. And we were looking at various ideas in how to address that. And, of course, last year we looked at taking valuations from 75 percent to 65 percent. We did look at what other states are doing along these lines. Some states, for instance, look at income to see if they can tie income to property tax valuations and so forth. And actually, I think what you find is a lot of those states change that every year as well as conditions change and adjust. And our target growth in general for government has been 3 percent. And so that's really, as we looked at if we're thinking about on an aggregate scale valuations going up at a 3 percent rate and giving local governments and local entities the opportunity, without doing anything else, getting that 3 percent growth, they ought to be able to live within that means just like we're trying to do in state government. So that's really how that genesis came about. This was something that would help smooth out and slow down those valuations; that if at some point in the future aggregate ag land valuations fell below 3 percent,

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there wouldn't be a factor, you know, calculative, just done as normally. And also this bill, again, as you pointed out, is not a hard cap. What it does is it's across the state, that 3 percent valuation, an aggregate. And that's important because that is in line with our constitution. We are very mindful that we had to stay within the constitution of being proportional and uniform. And so that's what this does is this will create a factor that the Department of Revenue will apply to everybody's parcel that will be exactly the same so we treat everybody the same. And that's how much their valuation will be reduced by on their property tax bill. [LB958]

SENATOR GLOOR: Thank you. Other questions? Senator Brasch. [LB958]

SENATOR BRASCH: Thank you, Chairman Gloor, and thank you, Governor. Chairman Gloor's question made me start thinking when you had mentioned that agriculture is the largest economic engine. But I also believe that it is one of the largest consumers of the state I believe when we look at Main Streets and our rural communities as what's coming in does not equal what our paying out is. And I speak that from personal experience that, as everyone who is in agriculture knows, the prices are upside down. And we're trying to rally and tough it through this storm. And so I do commend the 3 percent growth or limit that you're having. And I've historically carried the bill to try to reduce the valuations. And I'm hoping that from your work with both the Education Committee and Senator Gloor here that when we talk about a first step we still realize that it's a small step. Your comment on that, your thought. [LB958]

PETE RICKETTS: Well, again, I think that...I hope that every year that I'm Governor we're doing something along the lines of tax relief for Nebraskans. And again, there's a lot of other ideas out there that I'm willing to talk about. I think it's important though that we get something done this year. The people are mad. They're demanding property tax relief, and it's important for us to make those steps. It certainly doesn't preclude us from doing things in the future with regard to how we address tax relief. So...and frankly, conditions will change which will change how people feel about what their priorities are. And then we should reflect that change in what we do as their elected leaders. So I can't accurately predict what's going to happen in the future, you know, getting to Senator Harr's question. [LB958]

SENATOR BRASCH: Right. [LB958]

PETE RICKETTS: But I can tell you right now people are mad about property taxes and that the only way we can get that tax relief is by controlling spending. And this bill encourages that fiscal restraint. And that's why I believe this is the answer for this year. [LB958]

SENATOR BRASCH: Absolutely. Thank you. [LB958]

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PETE RICKETTS: Great, thank you. [LB958]

SENATOR BRASCH: I have no other questions. [LB958]

SENATOR GLOOR: Senator Davis. [LB958]

SENATOR DAVIS: Thank you, Senator Gloor. Governor, good to see you. I place a lot of reliance on Caroline Winchester, the superintendent of schools at Chadron; and I think you were out there last week so maybe you met with some of the Chadron people and heard some of their thoughts. But Dr. Winchester wrote a letter to the committee today and just want to cite a few things that she mentioned. She said about spending--our district increases in spending since 2006-07 have been .9 percent per year. If LB958 is enacted, Chadron will lose \$272,000 in funding. This is in addition to the current scheduled loss in state aid of \$89,461 for a total loss of \$332,000 or about six teaching positions and accompanying loss of opportunities for students. Then she goes on with a series of questions. But...and this is one of the concerns that I have is that this is not a one-size-fits-all piece, but it's going to affect some districts, some schools, and some counties in a more dramatic way than others. Would you like to reply to that question? [LB958]

PETE RICKETTS: Well, certainly just in general and with regard to the specifics on the schools, when we're back talking about LB959 we can, you know, get into more of the specifics on the school side. It is difficult to predict how every individual entity is going to be impacted because we have so many different levels of government here in Nebraska. And we have a lot of different levels of overlaying government here in Nebraska. And that's why I think it's important that we here at the state who set the rules for those look to see what we can do to encourage that fiscal responsibility. And, you know, think about the person who, I mean, is trying to, say, run their farm or run their business, take their kids to school, you know, pay their bills, all that sort of thing, just living life. And then they're supposed to go to a school board meeting, a county board meeting, an NRD meeting, a community college meeting, maybe a city council meeting. I mean, how many meetings can we expect people to go to? So I think it's important for us to look from that perspective of what's the average everyday Nebraskan trying to, you know, manage and how can we help them by encouraging this sort of fiscal restraint at the local level? Because, again, that's the only way we can get this type of tax relief is really by controlling the growth of our spending. So, yes, I mean, and when it comes to specifics, we can certainly look at it; and again, as I've said a couple of times already, if there are specific amendments, I'm open to talking about those to make this an even better bill. But I think overall the...again, the theme of this bill is how do we encourage that fiscal restraint because, at the end of the day, that's the only way we're going to be able to get that tax relief that Nebraskans are demanding. [LB958]

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SENATOR DAVIS: Thank you. [LB958]

SENATOR GLOOR: Seeing no further questions, thank you, Governor. [LB958]

PETE RICKETTS: Great. Thank you very much, Chairman. [LB958]

SENATOR GLOOR: And we'll move to Ruth Sorensen, Property Tax Administrator. Good afternoon, Ruth. [LB958]

RUTH SORENSEN: (Exhibit 1) Good afternoon. Hello, Chairman Gloor and members of the Revenue Committee. My name is Ruth Sorensen, that's R-u-t-h S-o-r-e-n-s-e-n, and I am the Property Tax Administrator with the Nebraska Department of Revenue. And I appear before you today as a proponent of LB958. You've heard about this aggregate adjustment uniform factor that the Department of Revenue will be involved with. So I'm here to support that aggregate adjustment and that uniform factor that will be applied to all the agricultural land across the state. One of the duties as the Property Tax Administrator is that we ensure the uniform and proportionate valuation of agricultural land across the state. We have all seen these large increases in agricultural land over the past number of years, and this bill will slow those increases as the Governor has indicated, will smooth out those increases, and will continue to allow the county assessors to perform their duties and assess agricultural land at 75 percent of market each year. And it will be simple for us to administer. How the aggregate adjustment will be developed is that we will...we at the Department of Revenue will take the total statewide aggregate valuation of all agricultural land from last year or from this year, pardon me, from this year, 2016, compare that total to the last year, prior year total taxable value of all agricultural land and then reduce the values of all the parcels through the statewide equalization process by uniform factor to ensure that statewide aggregate changes year over year in Nebraska do not exceed a 3 percent increase. Again, the county assessors will continue to base their assessments on the market value of the property as of January 1. They will continue to submit reports to the Department of Revenue that we will review and analyze and that contain detail of all the agricultural land in the state of Nebraska. We will continue to review these reports to ensure that agricultural land in each county does comply with the statutory requirement of a level value of 75 percent of market value before a state-adjusted factor is applied. Then in May of each year we will determine the statewide aggregate adjustment, or that uniform factor, that will be applied to the agricultural land by all the county assessors to, again, ensure that the total statewide aggregate total valuation of ag land does not increase 3 percent over the prior year. As has been testified to earlier, this is not a cap. It's a factor that's being applied to all of agriculture land, whether it's dry, irrigated, or grass, in each of the counties. This is being done in May so then June 1 all of our property owners will be aware of the adjustment that's being made. So this would show on their change of valuation notices that are mailed by all the county assessors by

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June 1 of each year. The notices will be changed slightly to clearly identify the prior year assessed value, the current year assessed value that the county assessor had determined, and then there will be a third column showing the state-adjusted taxable value. And that's the value that they can protest and that's the value upon which levies will be applied. And at this point, that will end my formal testimony; and I could take any questions if you have any questions with regard to the technicalities of the aggregate adjustment. [LB958]

SENATOR GLOOR: Thank you. Questions for Ms. Sorensen? Senator Davis. [LB958]

SENATOR DAVIS: Thank you, Senator Gloor. So the devil is always in the details, Ruth, and the questions that I have I guess are somewhat technical. But I understand how the aggregate is going to be applied and I just want to get this kind of on the record and see if I'm correct. [LB958]

RUTH SORENSEN: Sure. [LB958]

SENATOR DAVIS: And so we could have parts of the state that go up like Loup County did last year by 50 percent. And if the state aggregate value goes up less than 3 percent, there would be no adjustment. Is that right? [LB958]

RUTH SORENSEN: If the total... [LB958]

SENATOR DAVIS: Individual counties might go up by 50 percent possibly, but since that wouldn't affect the aggregate total, if it wasn't over 3 percent, there would be no adjustment. [LB958]

RUTH SORENSEN: If they increase that amount, that will affect the total agricultural land valuation for the total state. [LB958]

SENATOR DAVIS: Correct. [LB958]

RUTH SORENSEN: We're not going to look at county by county; we'll look at all 93 counties and we'll add that total in. If there are significant increases that, as you're indicating, if that continues, it has been showing that it will be more than a 3 percent increase and there would be a uniform factor applied. But if there is...if the total from this year compared to last year is taxable, which is after all county board action, if it's more than 3 percent, that would be...there would be a factor applied that would bring that back down to 3 percent. [LB958]

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SENATOR DAVIS: But what if the state's aggregate is below 3 percent? [LB958]

RUTH SORENSEN: Then there would...if the total state aggregate from...compared to last year's total taxable is less than 3 percent, there is no uniform factor applied. [LB958]

SENATOR DAVIS: No adjustment. [LB958]

RUTH SORENSEN: Correct. [LB958]

SENATOR DAVIS: So in that case, if Loup County were the only county to go up 50 percent it probably would not bring the aggregate over that 3 percent for the state. [LB958]

RUTH SORENSEN: Senator, probably not if only one county does increase. But what we look at when we go through statewide equalization proceedings is if one county is increasing there is no...that county line is an invisible line and property owners own property across county lines. So if it's increasing in one county, that's why it's called statewide equalization. You would see those increases elsewhere. And so the values in other counties may change along with that, as well as in school districts. [LB958]

SENATOR DAVIS: Do you happen to know what percentage of the total valuation in Nebraska is grassland? [LB958]

RUTH SORENSEN: Is grassland? Let me see if I have that here with me. I brought some state totals anticipating some questions. Let me take a look. I have it by dry/irrigated grass that I have here in front of me. I don't have the percentage. I can tell you grassland makes up a majority of the state of Nebraska. [LB958]

SENATOR DAVIS: In terms of geography. [LB958]

RUTH SORENSEN: In terms of acres, right. [LB958]

SENATOR DAVIS: In terms of valuation though? [LB958]

RUTH SORENSEN: Grassland is increasing this year, correct. [LB958]

SENATOR DAVIS: But as a percentage of the total valuation of the state, what percentage of that is grassland? That's what I'm asking. [LB958]

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RUTH SORENSEN: That's...I could get back to you on that percentage for you. [LB958]

SENATOR DAVIS: So I'm leading into a question. [LB958]

RUTH SORENSEN: Yes, absolutely. [LB958]

SENATOR DAVIS: So if we may be at a point now where farm ground is perhaps...has reached its maximum, grassland is still on the rise, and perhaps farmland might begin falling but grassland is still going up, isn't it possible that when you make the reduction...we'll say that we're over the 3 percent, but farm ground is stable. When you adjust down to the 3 percent, even though some valuation on some farm ground may not increase, it would actually show a decrease. [LB958]

RUTH SORENSEN: That is correct. [LB958]

SENATOR DAVIS: And how do you justify that to other taxpayers in that county? [LB958]

RUTH SORENSEN: It's the same as what they're seeing today. You would still see the grassland going up, like I'm hearing, 10, 12, 15 percent. But the dry and irrigated are only coming at the 8 percent, so they'd still proportionately, uniformly be lowered the same. And so it would be uniform and proportion to what they... [LB958]

SENATOR DAVIS: But some could actually see a reduction in their valuation even though it was level or maybe had just gone up slightly? [LB958]

RUTH SORENSEN: If there is a factor applied, all of the valuations will be reduced, and so they would be reduced uniformly. [LB958]

SENATOR DAVIS: Thank you. [LB958]

SENATOR GLOOR: Senator Harr. [LB958]

SENATOR HARR: Thank you. I think I understand what you're saying, but I just want to make sure. [LB958]

RUTH SORENSEN: Sure. [LB958]

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SENATOR HARR: So let's divide ag into three cohorts: dryland, irrigated, and grassland. Okay? Grassland, they're all...year one they're all assessed at \$100 an acre. And this is for simplicity's sake so work with me here. They would pay...and the rate is X. All right? So...and the rates can remain X the whole time, consistent. [LB958]

RUTH SORENSEN: Okay. [LB958]

SENATOR HARR: They would pay 75 cents or 75 percent of the value, correct? [LB958]

RUTH SORENSEN: Correct. [LB958]

SENATOR HARR: I, a homeowner, would pay...if it's \$100 would pay \$1 or 100 percent, right? [LB958]

RUTH SORENSEN: Correct. [LB958]

SENATOR HARR: Business would pay 100 percent. [LB958]

RUTH SORENSEN: Residential and commercial. [LB958]

SENATOR HARR: Okay. Year two, dryland is still at value...assessed, not valued, assessed at \$100. Irrigated is assessed at \$125. Grassland is assessed at \$150 an acre. My home is still \$100. What percentage would the ag pay? So the \$100 person who has remained the same, they wouldn't pay 75 cents or 75 percent, would they? What percentage would they pay? [LB958]

RUTH SORENSEN: It would still be assessed at 75 percent of market. [LB958]

SENATOR HARR: It would be assessed, but what would be the actual amount they'd pay, because it wouldn't be 75 percent? [LB958]

RUTH SORENSEN: It would depend on, okay, so the prior year you had three at \$100? And now you have... [LB958]

SENATOR HARR: Yep, and now we have \$100, \$125, \$150. [LB958]

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RUTH SORENSEN: So we'd have to determine the percentage of the total--\$150, \$125, and \$100 is \$375... [LB958]

SENATOR HARR: Okay. [LB958]

RUTH SORENSEN: ...and get a percentage of that. And if it's over 3 percent from the year prior, there would be a uniform factor applied to that and I don't have... [LB958]

SENATOR HARR: Okay. So \$375, what would I do, times .03? Is that what I do? Or how would I do that? I don't understand. [LB958]

RUTH SORENSEN: No, what you're going to do is you're going to take the total from this year... [LB958]

SENATOR HARR: So that would be \$300. Year one is \$300; year two is \$375... [LB958]

RUTH SORENSEN: So is year two the... [LB958]

SENATOR HARR: ...with the increase. [LB958]

RUTH SORENSEN: Is it 2016? Okay. [LB958]

SENATOR HARR: Does... [LB958]

RUTH SORENSEN: Okay. [LB958]

SENATOR HARR: We're saying year one, year two. Year one is '16; year two is '17 then. [LB958]

RUTH SORENSEN: Okay, so we would take '17 total, the \$375,... [LB958]

SENATOR HARR: Which is \$375, okay. [LB958]

RUTH SORENSEN: ...and divide that into the \$300 and you'd come up with a percentage. [LB958]

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SENATOR HARR: 1.25. [LB958]

RUTH SORENSEN: And so then we would...I have it in my Excel formula, but you would then do...so it would be reduced by a percentage. I believe it would be like 94.88 (percent), somewhere in there. [LB958]

SENATOR HARR: It would be what? [LB958]

RUTH SORENSEN: We have a calculation that we've done that's like 94.88 percent from...for '16 back to '15, and so that factor would be applied to all of the properties. And so all those properties would come down that equal factor. [LB958]

SENATOR HARR: So the person would probably, at \$100 would probably pay less than that \$75 of the year before. [LB958]

RUTH SORENSEN: No, they would be paying...because what would have happened is they would have been paying on the \$375 total, or the \$100, the \$125, and the \$175, but we're bringing that back down so they're paying less on what they would have been paying if it had stayed at the \$175, the \$125, and the \$75...or \$100, pardon me. Do you see what I'm saying? [LB958]

SENATOR HARR: No. [LB958]

RUTH SORENSEN: So, okay, so if the value is \$100 and you had \$150 and you had \$175... [LB958]

SENATOR HARR: And, no, that's...yep. [LB958]

RUTH SORENSEN: They...and you said the tax levies would stay the same,... [LB958]

SENATOR HARR: Tax. [LB958]

RUTH SORENSEN: ...so they would pay on that amount, so their tax would go up. [LB958]

SENATOR HARR: Okay, so I am...under this example the dryland stays at \$100. Would they...the assessed value would be \$100. [LB958]

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RUTH SORENSEN: Right. [LB958]

SENATOR HARR: They pay 75 percent of that. [LB958]

RUTH SORENSEN: Right. [LB958]

SENATOR HARR: So in year two, would they pay 75 percent of that or would they pay an amount less than that because of the new number you have? [LB958]

RUTH SORENSEN: It would be 75 percent of that lower number with the factor applied. [LB958]

SENATOR HARR: Okay, so it would be 75 percent of that lower number. So they wouldn't pay the same amount as the year before. [LB958]

RUTH SORENSEN: They wouldn't, right. [LB958]

SENATOR HARR: Even though their property is assessed at the same value? [LB958]

RUTH SORENSEN: So in 2016 the properties were all assessed at the same value and they're paying the same amount of tax. [LB958]

SENATOR HARR: Yep, so they would pay less year two. [LB958]

RUTH SORENSEN: In year two the values would increase still slightly, but they would be coming back. So they're not going to be paying as much as they would... [LB958]

SENATOR HARR: No, their value...the assessed value has remained the same. It's \$100 year one, \$100 year two. [LB958]

RUTH SORENSEN: Okay, so we're just...yeah, it would stay the same. Well, no, it would roll back. They would pay less. [LB958]

SENATOR HARR: So they would pay less. And I, a homeowner, my house remains the same assessed value. I would pay the same amount. [LB958]

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RUTH SORENSEN: Correct. [LB958]

SENATOR HARR: Okay. Let's go year three. Year three the properties all go back to \$100 or, excuse me, they roll back to \$105. Okay? So now they're all \$105. What would happen to the property that was based at \$150, it's now at \$105? Would its value, its taxes go up or down in year...between year two and year three? [LB958]

RUTH SORENSEN: If our tax levy is staying the same, they would go down... [LB958]

SENATOR HARR: Okay. [LB958]

RUTH SORENSEN: ...from \$175 down to \$105,... [LB958]

SENATOR HARR: Okay. [LB958]

RUTH SORENSEN: ...\$150 down to \$105. And the \$100 to \$105 would go up. [LB958]

SENATOR HARR: Okay. [LB958]

RUTH SORENSEN: But then there would be the uniform factor applied if it was more than 3 percent, and so they wouldn't be paying as much as they would have had we not applied that factor. [LB958]

SENATOR HARR: All right. I think I get it. [LB958]

RUTH SORENSEN: I can sure work with you, Senator, if you have any more questions. [LB958]

SENATOR HARR: I'm not sure we...I think in all cases I'm not sure we're going to like the results of this 3 percent. I think it's going to create some perverse...because if my house goes up in value as much as ag and, Lord willing and the Creek don't rise, I hope it does, don't get me wrong, because that's a great investment, but I don't see a return on my home until I sell it. Would you agree with me? [LB958]

RUTH SORENSEN: Yes. [LB958]

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SENATOR HARR: Okay. Ag land generally is based on the value of what it produces. Would you agree with that? [LB958]

RUTH SORENSEN: Yes. [LB958]

SENATOR HARR: Okay. So that's what the market determines the value of that land based on probably the crop that's on there. [LB958]

RUTH SORENSEN: Oh, well, pardon me. Let me back up. It's based on the value of the sales of that type of land,... [LB958]

SENATOR HARR: Okay. [LB958]

RUTH SORENSEN: ...not on the production. We are not a production state. My apologies. We are not production. [LB958]

SENATOR HARR: But you would agree there is a correlation between production and value? [LB958]

RUTH SORENSEN: We have to look at market value. We are a market value state. Now our soils are based on dry and then look at the capabilities... [LB958]

SENATOR HARR: Yeah. [LB958]

RUTH SORENSEN: ...that are in each of the counties. But we look at the sales and the market value. [LB958]

SENATOR HARR: Yeah, I agree that's what's you look at. But would you agree with me that there's probably a correlation between the two? [LB958]

RUTH SORENSEN: Not always. [LB958]

SENATOR HARR: Not always. [LB958]

RUTH SORENSEN: I couldn't agree with that, right. [LB958]

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SENATOR HARR: All right. I guess I have nothing else then. Thank you. [LB958]

SENATOR GLOOR: Senator Brasch. [LB958]

SENATOR BRASCH: Thank you, Chairman Gloor, and thank you, Ms. Sorensen. [LB958]

RUTH SORENSEN: Sure. [LB958]

SENATOR BRASCH: Because the word "home" came into this record, my home on the farm versus my home here in Lincoln or elsewhere, homes are always at 100 percent whether it's on the farm or in town, correct? So homes remain 100 percent... [LB958]

RUTH SORENSEN: Residential. [LB958]

SENATOR BRASCH: ...even though I'm a farmer, right? [LB958]

RUTH SORENSEN: Correct. [LB958]

SENATOR BRASCH: Where I live is 100 percent. [LB958]

RUTH SORENSEN: Correct. [LB958]

SENATOR BRASCH: So the 3 percent would not affect my home, house, and... [LB958]

RUTH SORENSEN: Only land. [LB958]

SENATOR BRASCH: ...or land, so... [LB958]

RUTH SORENSEN: Only the land. [LB958]

SENATOR BRASCH: So we're just strictly looking at the ag land values that have increased, as we've seen, 30 percent, 60 percent, where it would be great, you know, if the taxes were not...you know, if they were proportionate across the state. We're back to the three-legged stool and that's for another day, so thank you. [LB958]

RUTH SORENSEN: (Laugh) Okay. [LB958]

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SENATOR GLOOR: Yes, Senator Scheer. [LB958]

SENATOR SCHEER: Thank you, Senator Gloor. I apologize, I wasn't going to do much, but I can't help it. [LB958]

RUTH SORENSEN: (Laugh) Sure. [LB958]

SENATOR SCHEER: Thank you, Ms. Sorensen, for coming this afternoon. [LB958]

RUTH SORENSEN: Sure. [LB958]

SENATOR SCHEER: I just wanted to clarify, because initially when the bill was introduced I think I saw a schematic of the state that showed the state broken down into some specific regions. Am I correct in my thought pattern? [LB958]

RUTH SORENSEN: Yes, correct. [LB958]

SENATOR SCHEER: And so those different regions wouldn't...because there's different amounts of value in each one of those pockets, they aren't all necessarily going to see necessarily a 3 percent reduction. It's on the cumulative value of the whole state, correct? I guess when I looked at that there were some areas, and I believe it might even have been hypothetical so I'm not going to say it was actual numbers, but it looked like certain regions may have still gone up, we'll say, may have values of 20 percent increase and through the adjustment maybe had dropped down to 13. There might have been I think one area that was showing a 2 percent increase but actually then showed maybe a 3 percent decrease. So there wasn't really uniformity across the state; it was more uniform within those regions. Was I correct in... [LB958]

RUTH SORENSEN: The purpose of the chart was to try to segregate the state into areas that are similar. And so the one that you're discussing about the almost 20 percent increase, that was grass and that's in our northern part of our state. But the...and then the one that was lower is down in the south part of the state and that is more cropland and dryland. And they are all...but there's...they are...it is...grass is across and so is dry, so is irrigated. So when grass, dry, and irrigated are each reduced by this uniform factor, it is uniform... [LB958]

SENATOR SCHEER: Fair enough, but... [LB958]

RUTH SORENSEN: ...and it will be adjusted down. [LB958]

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SENATOR SCHEER: But are those actual regions that you then will look at in the future if the bill is passed or were those just simply designs for us to be able to comprehend the process? [LB958]

RUTH SORENSEN: It's a chart for you to understand the process because those county assessors have not established their 2016 values yet for us to give you actual, factual data for each county and how it will actually impact each of your counties. So this is more of a...this is an estimate that we surveyed the county assessor--what do you anticipate and see... [LB958]

SENATOR SCHEER: But there were no predetermined areas around the state. Those just happen to be clusters that you unilaterally chose to... [LB958]

RUTH SORENSEN: Display, correct. [LB958]

SENATOR SCHEER: Okay, thank you very much. Thank you, Senator Gloor. [LB958]

SENATOR GLOOR: Senator Sullivan. [LB958]

SENATOR SULLIVAN: Thank you, Senator Gloor. Thank you, Ms. Sorensen. [LB958]

RUTH SORENSEN: Sure. [LB958]

SENATOR SULLIVAN: Could you explain a little bit more, right at the end of your testimony you talked about, if this legislation would come to pass, then how the ultimate tax statement would look when a taxpayer receives this information on their statement. [LB958]

RUTH SORENSEN: Absolutely, I can do that. What will happen is in my testimony I'm talking about the change of valuation notices that are required to be sent by June 1 of each year for any property when that value has changed from the prior year. So on that part, on that notice, the June 1 change of valuation notices, there will be the three columns so the property owners will understand this is what my value was last year, this is what it would have been, you know, if the process had continued, this is what the county assessor has determined based on sales, and now here's what the value is based on this uniform factor that's being adjusted, being applied by the state of Nebraska. And so that's on that change of valuation notice. Now on the tax statements themselves will be that state-adjusted valuation column, so there would just be the one value on that tax statement. [LB958]

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SENATOR SULLIVAN: Thank you. [LB958]

RUTH SORENSEN: Correct. [LB958]

SENATOR GLOOR: And don't forget there will be a line that says, State Property Tax Credit Fund... [LB958]

RUTH SORENSEN: Absolutely. [LB958]

SENATOR GLOOR: ...of \$408 million over the biennium, I think. [LB958]

RUTH SORENSEN: (Laugh) Yes. [LB958]

SENATOR GLOOR: Senator Davis. [LB958]

SENATOR DAVIS: Thank you, Senator Gloor. And, Ms. Sorensen, I've got a few more questions. So Senator Gloor brought up the Property Tax Credit Fund. We did the postcards. I was inundated with calls from county treasurers who were saying that all these people think that they're going to get a credit of this amount, that they should deduct this from their total payment; anyway, which leads into the question. I don't know how we as senators go out to explain this to our constituents who I think are of a mind that the valuations will be at 3 percent. How do you intend to get that explanation out to people so that they don't expect that their valuation is only going to go up only 3 percent only to see it vary more than that? [LB958]

RUTH SORENSEN: There will be a lot of outreach. We'll be going across the state. We'll be outreaching to the county assessors and they will...they understand what will be happening. And that's why it's important to emphasize that this is not a cap, because if you say cap then that's what they anticipate. They anticipate that there would only be so much increase and nothing more. By saying it's going to be a uniform factor that's applied to reduce your values so that...reduce the total statewide aggregate agricultural land value to 3 percent growth as opposed to the anticipated 8 percent that we see now or the 19 percent from last year, that's how we're going to explain it, is that you, the individual property owners, may not see as much of an adjustment as you anticipate to be 3 percent; however, it will be applied, you will be getting the same factor as your neighbor, and it will be applied uniformly. We do the same for the property tax credit monies. We issue news releases and we say, this is going to vary depending on the value of your property, doesn't mean you're going to get the full \$94.09 or whatever it is because it's a portion of that. And that's what we'll explain as well with this. [LB958]

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SENATOR DAVIS: So one of the, I guess, concerns I had about 75/65 when that was the proposal a year ago was that it really didn't solve the problem of...which I viewed the problem being how we fund school finance, but that's another issue. When you drop that valuation in a heavily agricultural district and there's nothing else to really tax, all you end up doing is driving up the levies. So how do you answer your...how do I answer a school board and say, we're going to have to try to keep your levies low? And you probably heard my question to the Governor. It looks to me like if the levy authority is there they're just going to bump up the levy, which kind of defeats the purpose. [LB958]

RUTH SORENSEN: And that's...I believe the Governor had indicated that there is the LB959 in the Education Committee that's...that will be addressing the questions that you have and that could be a question perhaps that's asked at that time with regard to schools. [LB958]

SENATOR DAVIS: Okay, so then one last question. We're going to see...my part of the state I think in that chart was about 20 percent; we've got other parts that are quite a bit lower than that. How are local governments going to plan for...I think we can rely on our local folks to say, I realize that ag valuations in my district are rising by 20 percent and I needed to lower the levy, or see I see that maybe things are stabilizing and we need to focus. But now we're going to throw the whole state into this mix. And so there isn't going to be nearly as much of a local connection to value until the data comes out from your office. So how are they going to plan for that? [LB958]

RUTH SORENSEN: That's why it was important to do this before they set their budgets and their levies in the fall, and that's why they will know, the assessors will know in June what the value, the total value, is for agricultural land in that county. And that's why it's important that...that's why we looked at those dates, so that it wasn't beyond when they were setting their levies or when they were determining their budgets. [LB958]

SENATOR DAVIS: So I would only say one other thing. We're introducing a new concept that really is in many respects setting aside everything we've always done in the way we value land by imposing this "overstructure" over the top. Having lived through the '80s, I know how things can be in Nebraska and how quickly those things can happen. So one of my concerns is really the question that I asked you about how you're going to have disconnection between areas of the state in terms of valuation increases and decreases. Then we end up with the RIF notices that have to go out in April for school boards and, you know, a drastic change is...will be hard for them to cope with. I mean I'm really probably expressing more a concern or a fear than a question. [LB958]

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RUTH SORENSEN: I would just correct a statement that you made, with all due respect, is that the county assessors will continue with the current process. That is not changing, so that will continue and we will still monitor and we will have those, that data, continuously. [LB958]

SENATOR DAVIS: It will continue but there will be a new step in which you give them their taxable value. [LB958]

RUTH SORENSEN: There will be an additional step upon which they go through every year now through statewide equalization process if there is an order to adjust a class of agricultural land. They have to apply that percentage to that class or subclass of land and this would be the same type of thing. So they go through the same process now. The addition to what the county assessors will be...will do is add, and this is more with the computer vendors, is adding that column to that change of valuation notice. [LB958]

SENATOR DAVIS: Can you envision commercial, residential property owners requesting this same circuit breaker down the line? [LB958]

RUTH SORENSEN: I think they could probably request it. My concern with the commercial side of things is then you bring in centrally assessed property, which is high in value, then you really impact your value base. [LB958]

SENATOR DAVIS: Thank you. [LB958]

SENATOR GLOOR: Seeing no further questions, thank you, Ruth. [LB958]

RUTH SORENSEN: Thank you. [LB958]

SENATOR GLOOR: I would like to see a show of hands who those wish to speak as proponents of this bill. I think we have a small enough number that we can work through proponents and then move on to our opponents. Let's start with proponents. Afternoon. [LB958]

STEPHEN NELSON: Good afternoon. [LB958]

SENATOR GLOOR: Go ahead, Stephen. [LB958]

STEPHEN NELSON: (Exhibits 2 and 3) Okay. My name is Steve Nelson, S-t-e-v-e N-e-l-s-o-n. I'm the president of Nebraska Farm Bureau. I'm here representing Farm Bureau and our 61,000

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member families. I'm also a farmer in Kearney County, farm with my son there and raise irrigated corn, soybeans, and hybrid seed corn. We're also presenting a letter from the Nebraska Soybean Association in support of the bill as well. I want to thank you, Governor Ricketts and Senator Gloor, for drafting LB958 aimed at controlling costs of government-supported entities and limiting the future growth in valuations of agricultural land to 3 percent. LB958 slows the growth in statewide agricultural and horticultural land valuations and property taxes paid by political subdivisions. It reduces property taxes through a three-component initiative which would tighten spending limits on local governments, tighten current levy limits on local governments, and limit the aggregate statewide value increases of agricultural land to 3 percent a year. Farm Bureau's top priority is to reform the way we fund schools in Nebraska. It's clear we must better balance how we fund education in the state to alleviate the over-reliance on property taxes. Delegates to our annual meeting in December set a marker in adopting policy that no more than 40 percent of school funding should come from property taxes. Moving towards structural reform is critical to providing meaningful and lasting tax relief. And certainly this bill does not talk about schools, but that's part of where we're at. I want to just point out some of the facts that you've heard me talk about before, but I think it's always important to know where we're coming from, an agricultural perspective. Property taxes continue to go up. Nearly \$3.8 billion in property taxes were levied statewide in the 2014-15 fiscal year, a 6 percent increase over the previous year. Over the last ten years, from 2005 to 2015, property taxes collected statewide on agricultural land increased 176 percent, residential property increased 35 percent, and commercial property increased 49 percent. Agricultural landowners take the brunt of these tax increases. Property taxes collected on agricultural land went up 12 percent statewide last year. Commercial taxes went up 5 percent while residential went up 4 percent. The 12 percent statewide increase on agricultural land in 2015 equates roughly to \$2,400 increase per average farm and ranch in Nebraska. Efforts to date have not fixed the problem. Nebraska's three-legged stool--property, income, and sales tax--is out of balance. Property taxes account for 48 percent of the total combined property, income, and sales tax collections. Income taxes amount to about 32 percent of the total while sales tax amounts to 20 percent of the total. Last year the statewide allocation or allocated...or the state allocated \$204 million to the Property Tax Credit Fund to provide property tax relief, but during that same period the total property taxes collection statewide increased \$216 million. Today roughly 57 percent of the total school spending comes from property taxes. Nationally the average is 32 percent. In conclusion, Nebraska Farm Bureau supports LB958. All of the property tax owners in the state of Nebraska are seeking more relief from the disproportionate burden of property taxes. Farm Bureau will continue to work on additional measures before the Revenue and Education Committees to assure that the best ideas of all the legislative proposals are incorporated into the bills that will be advanced to the floor for the Legislature's consideration. We offer our resources to assist the committee in any way that we can and certainly we thank you for this opportunity to discuss and talk about this important matter. I'd try to answer any questions that you have. [LB958]

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SENATOR GLOOR: Thank you, Mr. Nelson. Questions? Seeing none,... [LB958]

SENATOR DAVIS: I've got a couple. [LB958]

SENATOR GLOOR: Oh, I'm sorry, Senator Davis. [LB958]

SENATOR DAVIS: Mr. Nelson, good to see you. So is Farm Bureau going to be satisfied if this is all we can get? Is this going to take care of the problem, do you think? As a farmer, are you going to be satisfied with sort of a very tiny band-aid on the piece? [LB958]

STEPHEN NELSON: Sure, I, yeah, I understand your question and I agree with what the Governor said earlier is that this is a step, this is one piece, it's a step in the right direction. Certainly we need more to bring it into balance. You heard the numbers that I talked about. You all are aware of those numbers. And our objective of course is to bring us closer to the third, third, and a third, so obviously this bill doesn't get us there, certainly, within one year. Now over a period of time I don't think we know for sure, you know, how much this helps. Certainly, if it would have been in place ten years ago, it would have had a much different effect. But the components of spending restraint are extraordinarily important in any plan that we have. And our policy talks about that and we're very supportive of spending restraints at all levels as a piece of how we get there. Then I think that there's...we have to just continue to work for ways to move us in the direction of bringing more balance to the system. What we have today is not sustainable. We can't continue to have the growth that we've had or the increases that we've had and we have to find ways to rein that in. I think this bill and the bill coming up next week, LB959, I think these are both steps in the right direction toward dealing with the problems that we have. [LB958]

SENATOR DAVIS: Last week I introduced a bill in Education. It was to return state support to...for special education, which is something the state used to pay about 80 percent of the cost. The state now pays 52 percent of the cost, so my bill was a proposal to move that back to that 80 percent level. And this is more for information than anything else, but I was astounded when we got the fiscal note on it which was \$130 million. And these are examples of the state shifting costs down to the local school district. I'm a big believer in public education and I think we need to fund it, but we're going to have to find ways...you've made...you've pointed out a lot of things in here that I think are very valuable in our status in terms of property as a big piece of the tax liability and the fact that, you know, the sales is down...our sales is now 20 percent. So nobody likes tax increases, but we can't solve the property tax problem strictly with spending limitations or caps. You know, we have to find another source of revenue somewhere--just an observation. [LB958]

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SENATOR GLOOR: Senator Harr. [LB958]

SENATOR HARR: Thank you. And thank you for coming, Mr. Nelson. You know, we have seen a great change in wealth within to the rural sector and it's been a good thing, but it has downsized, which is why we're here today. You know, you said if this bill were in place ten years ago it would have a different effect. And the World-Herald this morning in an article said it would be about 16 percent or 16 cents is what a farmer would be paying or agricultural land would be paying today, as opposed to commercial and residential which pays 100 cents on the dollar. Do you think it would be fair if it were 16 cents while our friends in residential and commercial pay 100 cents on the dollar? [LB958]

STEPHEN NELSON: I don't know if I can answer your question exactly and I'm not going to try to talk about their numbers because I'm not exactly sure if that...their numbers are right. Obviously, if this would have been in place, the number would be less than what it is today. Again, I think that what we have to remember is where we are today. We have seen huge increases, a huge shift of the burden onto agricultural property taxpayers. And what we're talking about is really incremental ways of starting to try to bring that balance back so that isn't there. We're not going to...this wasn't in place ten years ago, so my point was just to say it would be different. But I think that what we have to do and I think it's...you know, we can...yeah, I mean, obviously, we would like to...or everybody likes to fix everything all at once. I don't think we can do that. But we can work on these things incrementally and that's why I think that these bills are part of how we find the solutions to the great imbalance that we have in property taxes. [LB958]

SENATOR HARR: I guess my question though is...and I don't always agree with what's in the World-Herald, so I'll concede that with you. But let's assume they are correct here and it is 16 cents, because we do have to look at what the ramifications are when we pass legislation. And so my question is, if it did get to 16 cents and the other two were at \$1, would you consider that fair? [LB958]

STEPHEN NELSON: We think that the third, third, and a third is a good balance. [LB958]

SENATOR HARR: But that's between property, sales, and income. I'm just speaking within property tax. If you had two sectors that were at 100 cents on the dollar and one was at 16, would you think that's fair? [LB958]

STEPHEN NELSON: Well, I mean, the numbers that I showed you show how far off we are, the large burden that agriculture is paying on property taxes today. So if we bring that to some point where there is some equity in that balance between the different sectors of property taxpayers, I

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believe that would be fair. Where we're at today is not fair. And certainly, if the extremes were the other way around, that wouldn't be fair either. [LB958]

SENATOR HARR: So 16 cents to you would not be fair. [LB958]

STEPHEN NELSON: Well, I...my answer is that we support a balance in there and it should be balanced between the sectors. [LB958]

SENATOR HARR: And, yeah, and that's what I'm trying... [LB958]

STEPHEN NELSON: It should be balanced between the sectors. So if it's not balanced between the sectors, then it wouldn't be fair. [LB958]

SENATOR HARR: So how do I know what fair is? Can you define fair for me? [LB958]

STEPHEN NELSON: I would...again I would say that if we had, within the property tax side of it, that if we have each sector paying a similar percentage based on their percentage of the pie, that that would be fair. [LB958]

SENATOR HARR: So is that the way we should do this then? I mean that's what Colorado does is they base it on ag pays X percent, residential pays X percent, and commercial pays X percent, and if there's growth within that one area it fluctuates. Would you prefer a constitutional amendment that does it that way or would you prefer this 16 cents? And there's no right or wrong answer. [LB958]

STEPHEN NELSON: Yeah, yeah. [LB958]

SENATOR HARR: I honestly don't know. We're the policy makers and I'm trying to figure out what is fair and how we can come to a solution. I don't know if you know this. Property tax has been an issue for a long time and... [LB958]

STEPHEN NELSON: (Laugh) Maybe we've talked about it before. [LB958]

SENATOR HARR: Yeah, maybe, probably long before you and I have been on this earth. [LB958]

STEPHEN NELSON: Yeah, yeah. [LB958]

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SENATOR HARR: And I'm just trying to figure out what is fair so that we can try to maybe put this to bed for a little while and hope, you know, that we can...because it isn't fair right now. I mean I'll concede ag is paying a large portion. But I don't know how to get to what the solution is. And so I'm just trying to figure out what is, how do we get to fair. Is this...in an ideal world, what would you like to see done? [LB958]

STEPHEN NELSON: Well, I really said that, you know, we want...we see that having a third of all of the tax money coming from property, sales, and income tax would be fair. [LB958]

SENATOR HARR: Okay. [LB958]

STEPHEN NELSON: You know, and it's hard to get exactly there. [LB958]

SENATOR HARR: But close, yeah. [LB958]

STEPHEN NELSON: Within the property tax side of it we need to have a better balance than what we have today and this moves us in that direction. Now I'm not saying that this is perfect. [LB958]

SENATOR HARR: Yeah. [LB958]

STEPHEN NELSON: But it moves us in the right direction. I think that we have...when you had mentioned... [LB958]

SENATOR HARR: Yeah. [LB958]

STEPHEN NELSON: ...trying to put this to bed, I don't think we're...you know, unless we want to really lay out a multiyear plan where we say, okay, we're going to do this, this year, this, you know, whatever it is,... [LB958]

SENATOR HARR: Yeah. [LB958]

STEPHEN NELSON: ...unless we lay out a multiyear plan, I don't think we can put this to bed. [LB958]

SENATOR HARR: Yeah. [LB958]

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STEPHEN NELSON: You know, we'll be back here next year talking about something else. But this is what we have today. [LB958]

SENATOR HARR: Yeah. [LB958]

STEPHEN NELSON: And this is what we're supporting today as a way to move in the right direction. [LB958]

SENATOR HARR: So today it's based on total value of the land is how we do it. Would you say we use something else besides value of the land to determine the property tax? [LB958]

STEPHEN NELSON: We've talked about using income capacity. We've looked at that in other states. And, you know, to your earlier point about Colorado, I'm not familiar exactly with how Colorado does it so I can't answer that the best. [LB958]

SENATOR HARR: Okay. [LB958]

STEPHEN NELSON: But we've looked at using an income approach, I mean, and there's a fundamental reason why that sounds good. But when we've looked at it, it hasn't necessarily provided a solution to the balance question either. It may be a better or more fair way of valuing property, but it doesn't really get to the balance question that we're talking about. [LB958]

SENATOR HARR: Okay. Thank you. I appreciate it. [LB958]

STEPHEN NELSON: Okay. [LB958]

SENATOR HARR: Nice to have that conversation. [LB958]

SENATOR GLOOR: Seeing no further questions, thank you, Mr. Nelson. [LB958]

STEPHEN NELSON: Okay, thank you. [LB958]

SENATOR GLOOR: Next proponent. [LB958]

JIM VOKAL: (Exhibit 4) Chairman Gloor and members of the Revenue Committee, my name is Jim Vokal, J-i-m V-o-k-a-l, and I'm the CEO of the Platte Institute for Economic Research.

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Thank you for this opportunity to speak in support of LB958. LB958, the property tax relief initiative, would slow the growth of property taxes levied by political subdivisions by tightening current spending limits and levy limit overrides on local governments. This approach would strengthen spending restraint to reduce the reliance on property taxes. As the committee is well aware, the Tax Foundation ranks Nebraska's mean property tax rate as 7th highest in the nation and 13th highest in per capita collection. Local spending in Nebraska has ballooned in recent years, consuming an ever-increasing share of the state GDP. In 2015, local spending was roughly 11 percent of Nebraska's gross state product. The only states with proportionately higher local government spending were Mississippi and New York. Additionally, the U.S. Census Bureau calculated that in Nebraska local property taxation raised nearly \$3.1 billion in 2013, or 77 percent of local tax revenues. These startling statistics demonstrate that local spending restraint is essential to control property taxes in Nebraska. LB958 would encourage local governments to do this by limiting budgeted growth of restricted funds. Specifically, the bill strikes exclusions for capital improvements, sinking funds for equipment purchases, and expenditures in support of interlocal agreements. According to research done by Mercatus for the Platte Institute, checks on political subdivisions are most effective when bound to spending rather than revenue. LB958 follows this approach. As noted in our 2013 study by the Tax Foundation, valuation limits are not effective without corresponding restrictions on spending and levies. With our existing levy caps and additional restraints on overrides for bonded indebtedness, the structural changes contained in LB958 will help moderate the growth of property taxes collected from year to year on agricultural land in Nebraska more than a direct change to ag assessment ratio. Lasting change is better achieved by changing the rules of the game that shape the budget process. The pain Nebraskans feel from high property taxes is due to the financial burden applied by high rates which are the product of local spending. Still, LB958 would maintain local control and permit voters to override levy limits in special circumstances. Thank you for the opportunity to testify today. I'd be happy to answer any questions. [LB958]

SENATOR GLOOR: Thank you for your testimony; and for the courtesy of watching the time line, thank you also, Mr. Vokal. Questions? Senator Harr. [LB958]

SENATOR HARR: Thank you, Chairman Gloor. Mr. Vokal, I very seldom get the chance so I'm going to take advantage of it. I don't get a lot of my constituents down here, and so I just want to thank you for taking the time to come down here. [LB958]

JIM VOKAL: You're welcome. [LB958]

SENATOR HARR: It's always a pleasure to have one of my constituents here, so I just wanted to say thank you. [LB958]

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JIM VOKAL: That's easy. [LB958]

SENATOR GLOOR: You might want to stick around and keep an eye on him for the rest of the day (laughter). [LB958]

JIM VOKAL: I do that on a daily basis, Senator Gloor. [LB958]

SENATOR GLOOR: Any questions for Mr. Vokal? Seeing none, thank you. [LB958]

JIM VOKAL: Thank you. [LB958]

SENATOR GLOOR: Next proponent. Go right ahead. [LB958]

BOB KITTELSON: Bob Kittelson, B-o-b K-i-t-t-e-l-s-o-n, I'm a landowner in Boone County and we have dryland and irrigated land, probably average production on our dryland, maybe a little bit lower than average on our irrigated land. We're in a cash rent situation and I feel our rents are above average. Presently on our dryland we pay approximately 23 percent of our gross for real estate taxes, 23 percent of our gross. On our irrigated it's approximately 15 percent, so that's how it affects our bottom line. I don't think our tenants can afford to pay any higher rents, so has not been good for them this last year. So any questions? [LB958]

SENATOR GLOOR: So you're in support of LB958. [LB958]

BOB KITTELSON: We need... [LB958]

SENATOR GLOOR: You think it's a reasonable solution. [LB958]

BOB KITTELSON: Well, we need some solution. We need some relief. I could only give you at 27...or 87 percent, 70 percent, you'll have 100 percent of my income. [LB958]

SENATOR GLOOR: And if I might point out, that money actually goes to your county treasurer. That's part of the challenge, obviously, is the state money that we would like to interject in this... [LB958]

BOB KITTELSON: Sure. [LB958]

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SENATOR GLOOR: ...comes from income and sales tax. [LB958]

BOB KITTELSON: Right. [LB958]

SENATOR GLOOR: It's the local dollars that end up being the challenge with anyone who owns property at the local level, so that we do understand. Thank you. [LB958]

BOB KITTELSON: Yeah, I understand the challenge. I'm just stating a fact. [LB958]

SENATOR GLOOR: Questions for Mr. Kittelson? Seeing none, thank you for taking the time to come down. [LB958]

BOB KITTELSON: Thank you. [LB958]

SENATOR GLOOR: Good afternoon. [LB958]

KEN HERZ: Hi, Senator. Good afternoon, members of the Revenue Committee. My name is Ken Herz, K-e-n H-e-r-z. I am a rancher from Lawrence, Nebraska. I also serve as the taxation chair for the Nebraska Cattlemen and am here to testify in support of LB958 on behalf of the association. Nebraska Cattlemen would like to thank Senators Gloor and Sullivan and Governor Ricketts for bringing forward LB958 and the companion LB959. High property taxes continue to be number-one issue Nebraska Cattlemen hears from our members. At any meeting we host or attend statewide, multiple people ask us when property tax relief is coming. When the Legislature convened the Tax Modernization Committee in 2013, Nebraska Cattlemen convened our own task force to better clarify our policies on taxation. Ranchers and farmers who make their living from the land carry a disproportionate burden in Nebraska's tax structure. Our property is our business and, whether it has been a good year or a bad year, property taxes must be paid each year. Property taxes do not respond to changes in the economy or our businesses, and in many counties the percentage of local revenue generated by ag property taxpayers is over 50 percent. In those counties, agricultural landowners carry the burden of providing the monies to run local governments and fund K-12 education. The long-term solutions Nebraska Cattlemen have arrived at are a fair, simple, and efficient tax structure that does not overly rely on property taxes and incentivizes efficient government. NC believes that LB958 is a positive first step towards meeting these goals. Nebraska Cattlemen supports limiting increases agricultural land will see in the future years with the application of an adjustment factor to limit aggregate growth of ag land values to 3 percent annually. The adjustment will be applied uniformly once all land has been assessed statewide and the adjustment factor will be determined by the Tax Equalization and Review Commission. In practical terms, if the aggregate state taxable value of

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agricultural land statewide is 3 percent or higher than the previous year's taxable value of agricultural land, those lands will be...those values will be adjusted. This will prevent the double-digit increases agricultural landowners have seen the past few years. Additionally, while limiting year over year increases, the bill also allows valuations that catch up in the norms in later years. LB958 also...tying spending limits on local governments and limits carryover of unused budget authority to 3 percent. It further requires that any exception to the levy limit restrictions require a vote of the people of that taxing entity to make such a change. These structural changes are important. And just as farmers and ranchers make budget decisions and adjustments based on the economy, we support political subdivisions doing the same. Nebraska Cattlemen appreciates the work of Senator Gloor and the Revenue Committee during the interim and we look forward to seeing property tax relief passed by this committee and the Unicameral. Thank you. [LB958]

SENATOR GLOOR: Thank you, Mr. Herz. Are there questions? Senator Davis. [LB958]

SENATOR DAVIS: Thank you, Senator Gloor. Good to see you, Ken. [LB958]

KEN HERZ: Good to see you, Senator. [LB958]

SENATOR DAVIS: You heard my testimony with...when I was talking to the Governor about Dr. Winchester, and I know you know Dr. Winchester and some of the issues that are going on in Dawes County. [LB958]

KEN HERZ: Sure. [LB958]

SENATOR DAVIS: So how do you address the concerns that she expressed wherein, you know, their budget has only gone up by .9 percent every year for the last seven years but yet they would be looking at almost a half a million dollar loss in revenue by this modification? [LB958]

KEN HERZ: As I understand it, Senator, there is an ability that they could do an override with the vote. Is that correct? And I guess that would be an option that would be available to them that if the constituents see the need for it, that they can override the limit. [LB958]

SENATOR DAVIS: Do your members, who I'm sure many...many of your members probably serve on the school boards around the state. Would that be true? [LB958]

KEN HERZ: That's correct, Senator. [LB958]

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SENATOR DAVIS: Do they bring you any discussion of consolidation of resources or school districts? [LB958]

KEN HERZ: You know, Senator, that's an interesting question. In our...in my district itself is that we could consolidate and it would save quite a bit of money. And it's decisions that communities are having a really tough time dealing with because they're afraid to lose the local school in their own town and stuff like this. But this is a question that I think does have to be addressed and I think it will be in time. [LB958]

SENATOR DAVIS: Do you think a bill like this might incent...not incentivize but might force more consolidation? [LB958]

KEN HERZ: Again, I think that there's the ability for the school districts to override the levy limits if they so choose that they would prefer to have schools that probably aren't quite as efficient. And so there is that ability, but hopefully we look at how efficiently our tax dollars are paid. [LB958]

SENATOR DAVIS: Thank you. [LB958]

SENATOR GLOOR: Other questions? Thank you for your testimony. [LB958]

KEN HERZ: Thank you, Senator. [LB958]

SENATOR GLOOR: (Exhibits 5-9) Next proponent, please. Anyone else who is a proponent? Let me read quick for the record, we have letters from proponents of: Mary Lou Block, Gothenburg, Nebraska; Bill Thiele, Nebraska State Dairy Association; Larry Mussack, Nebraska Corn Growers Association; Mark McHargue, Central City, Nebraska, and Cindi Allen, ag producers. And we'll move to opponents of this bill. And I would say, we have three bills that were being heard today. If you as a testifier have opposition to all three of those bills, you don't have to hang around, because we could be here for a while for all three of these. You're welcome to, for the record, state that your testimony carries over to concerns you may have about LB717 and LB940 also, for what it's worth. Mr. Mayor. [LB958]

CHRIS BEUTLER: (Exhibit 10) Mr. Chairman, members of the committee, I don't envy you the tough, tough questions that are involved in the matter of looking at property taxes and I commend you for looking at it, for the work you've done on it, for the work that the Governor has done on it. But I very strongly believe that that portion of this bill that has to do with restricted funds lid provisions will be devastating to the political subdivisions of this state and

that it ought not to be done without a great deal of additional thought. To the extent that people I work with who run municipal governments around the state are able to interpret the bill, and there are interpretation problems involved, to the extent that they can interpret the bill, when they combine the effect of the bill with the already in place limitation on levies, they believe that there will be very consequential, negative effects from this legislation. As I understand it, the bill changes the restricted fund lid provisions that have been in place now for 18 years. This lid currently restricts the use of certain revenue sources, one of which is the property tax, but there are many other revenue streams that are also limited. And don't forget that the budget limitation is on top of the levy limit that's also currently in place. The city of Lincoln has tried to fulfill the spirit and the intent of the restricted funds lid in many ways over the last 18 years. We currently have the fifth lowest tax rate among Nebraska's 15 largest cities. In fact, the city's property tax rate has decreased 38 percent, from 52 cents in 1954 to 32 cents today. We've also...during that time we've cut the civilian work force, during my tenure, for example, by 120 full-time equivalent positions out of a work force of around 2,000. So we've been working hard, as have all the municipalities in Nebraska, to make do with less, and we've done it in a situation where the city has grown by 8 percent in geographic area and by a similar percent in terms of its population. The original lid legislation was designed in part to encourage intergovernmental cooperation. I can remember the days in the Legislature when we were working hard to try to achieve efficiencies and decreasing costs by working directly with consolidation. We weren't very successful with that and so a number of interlocal types of arrangements were put into law and local political subdivisions were encouraged to use them. And one of the ways they were encouraged to use them was by making interlocal agreements an exception to the restricted funds provisions of this lid. And by doing that people were encouraged to enact these interlocal agreements and the city of Lincoln has enacted more than 25 of these agreements during that time period. And that's been helpful towards moving the state and moving the political subdivisions of the state towards consolidation. So it's kind of ironic for me today to see a kind of reversal in the incentive policies of the Legislature with regard to encouraging consolidation. LB... [LB958]

SENATOR GLOOR: Mr. Mayor, we're... [LB958]

CHRIS BEUTLER: Okay. [LB958]

SENATOR GLOOR: Can I ask you a question? As an example, will this have an impact on the city's bond rating, do you think? [LB958]

CHRIS BEUTLER: Yes. I thank you for asking that question, Senator, because it could very possibly have a detrimental effect on the bond rating of the city. The city's bond rating is the very best that can be given, a AAA rating. It's based upon the fact that we're able to say to

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bondholders that, if push comes to shove, we have the ability to increase our revenues to meet bond payments. With the enactment of this...with this tightening down of the limitation, the budget limitation, there will be considerable additional doubt as to whether the city could really levy to pay off the bonds an additional amount and, in particular, a crisis situation. [LB958]

SENATOR GLOOR: It seems to me... [LB958]

CHRIS BEUTLER: You know... [LB958]

SENATOR GLOOR: I'm sorry, go ahead if you hadn't... [LB958]

CHRIS BEUTLER: Well, to build on this, and getting off script, to a certain extent, my staff will be upset with me here as I go forward from this point... [LB958]

SENATOR GLOOR: It's more fun for us this way (laughter). [LB958]

CHRIS BEUTLER: Yeah. But I have to tell you that it upsets me to hear about this fact that taxes are out of control and that the local political subdivisions are causing taxes to be out of control. I would ask you to look at a chart that your Fiscal Office does and it's a chart that calculates what's happened to state taxes and local taxes taken together from the period of time in the 1960s when the income tax and the three basic taxes were fundamentally worked out in the first instance. And if you look at property taxes and sales taxes and income taxes, all of the major taxes taken together, state and local, and you go forward from 50 years ago, they are the same or a little lower. They wavered. They have gone between 11 percent and 9 percent of personal income every year for 50 years, and now they're at the lower part of that scale at about 9 percent. What has not changed, to be honest with you, is that the property tax is still a major portion of that. But I would say to you the local political subdivisions are really working hard and have their act together. Sure, there are hundreds of them, so there will be a few who have not kept as close track of things possibly as others. But overall you have a very efficient and very motivated and very public servant-oriented group of political subdivisions. Why is it you want to risk tearing apart an infrastructure that's been built up over hundreds of years to test out the theory that you can crunch down spending enough to make up this one-third, one-third, one-third breakdown between property taxes and sales taxes and income taxes? The fair thing to do would be to figure out a way to substitute revenue so that you weren't destroying the political subdivisions in the process of correcting the property tax situation, if you think it should be corrected, because I don't think the underlying evidence is there to make the argument that Nebraska political subdivisions are wasting your money. [LB958]

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SENATOR GLOOR: Yes, Senator Brasch. [LB958]

SENATOR BRASCH: Thank you, Chairman Gloor, and thank you, Mayor Beutler. As I listened to and I jotted down here you expressed a concern and you used the word "restricted funds," the word "restricted" here, and the state of Nebraska, we've restricted our budget. You know, we're trying to work within a 3 percent increase and we've got 1.89 million concerns, agencies, etcetera. And you were a state senator so you know the vast scope of what we need to do with that 3 percent. Do you have a problem with restricting 3 percent growth? And if you do, how much should a city grow if it's more than 3 percent? [LB958]

CHRIS BEUTLER: I think most of all what I have a problem with, Senator, is something that's so inflexible that it could cause you to be in a terrible position at a particular point in time, and the smaller the cities get the more often that that undoubtedly would occur. Just to... [LB958]

SENATOR BRASCH: So what is your growth? What has the growth of... [LB958]

CHRIS BEUTLER: Yeah. [LB958]

SENATOR BRASCH: ...your budget been? How much does it grow from year to year then if you're... [LB958]

CHRIS BEUTLER: I will get those figures for you. [LB958]

SENATOR BRASCH: Okay. [LB958]

CHRIS BEUTLER: But they've been on the upside of 3 percent and there's a reason for that, a couple of reasons. But most of all, in Lincoln we have sought to be a dynamic part of the Nebraska economic scene. We've sought to do our part in building economic growth in the city, not just be a government town. And so we have gone the way of encouraging growth. And when you encourage growth, you have to take the growth dividend and invest it in continuing that process. For example, if you're going to build businesses and add people to your city, that means you're going to build homes and expand the edge of the town. That means that additional infrastructure has to be built out to those subdivisions to service that growth. And it's a continuing process. If you want to continue to serve, to deliver services on the same basis that you did the year before, you need to cover inflation and you need to cover growth in the community in terms of area and population. And at any one point in time, 3 percent may be totally inadequate. For example, we have, as a result of the economic collapse of 2008, we have to make up pension payments, fire and police pension payments, in the city of Lincoln. When I

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first came into office eight years ago, those payments were about \$3 million a year. For the next couple of years they're telling us we got to make payments in the neighborhood of \$12 million a year. And after that it will be even higher for a period of time to make up for the lost rate of return for the investment period of time representing that period of time after the Great Recession when returns on investment were extremely low. And as you know, returns on investment are what we count on to fund our defined benefit programs. So if this lid would have...would not...would go into effect as written, I would be very concerned about that particular obligation in the coming years. [LB958]

SENATOR BRASCH: Very good. Thank you. I have no other questions. [LB958]

SENATOR GLOOR: Other questions? Senator Schumacher. [LB958]

SENATOR SCHUMACHER: Thank you, Senator Gloor, and thank you, Mayor Beutler, for sharing your experience with us. As I sit here thinking about these issues, the property tax, income tax, sales tax, and what we face as cities at the state level, I'm awful thankful for term limits (laughter) because they're big problems and I only got three more years. But, you know, we...there are things that we have to do. You've got to do what you have to do at the city level and that's funded basically by property taxes plus whatever the state gives us, some type of aid. The state has got to maintain its services--education and transportation. And we're looking at some really, really big expenses that we'd just as soon put off until somebody else has got the problem: prisons, we know that has got to be a nine-figure expenditure; mental health, a nine-figure expenditure. We've got a real problem because of our wages being low. We've got to do something with childcare or pre-age five education. That's probably pushing eight or nine figures. We got the problem you just mentioned on the state level, as well as, if I had to bet anything, we're going to have to look at helping some of the cities that got behind out on retirement funding, pension funding, and that number gets big, as you were just talking. It's a geometric expansion. We've got the baby boomers coming off-line and wanting to ride the wagon instead of pull it and tremendous old-age expenses that we're looking over the next few years. And from the state perspective, we've got to come up with that from income and sales tax. So we're not going to have a whole lot. I mean the idea that we can keep expenses to 3 percent or some way or another, you know, grow faster than that and a national economy that's not going to grow faster than that, and that we're going to be able to do that or by finding inefficiencies in government is stretching things a bit. We probably won't be able to. So we're confined, and so I don't think the cities and local governments can expect big increases coming off of the sales tax and income tax pool to juggle with the legs on the stool. So that being the case, how do we assure that local governments live off of what they can afford for property taxes unless we impose some type of a limit across the top? We either got to shift money to you or you got to stop spending. [LB958]

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CHRIS BEUTLER: Well, Senator, it's your prerogative, of course, what happens to all the political subdivisions in the state. And you have to weigh and give value to what they do and what they're doing in the various areas of our community life and compare that to what you have to do at the state level and compare that to the tax situation that exists and make judgments about whether the taxes should be increased or decreased or more flexibility should be given or not given, both with regard to yourselves and with regard to the political subdivisions. And it's not easy. I'd be the first to admit that. The property tax question, you may remember back in 1986 the big issue in the Helen Boosalis, Kay Orr race; in fact, many people thought the Democratic candidate lost because she couldn't properly explain the one-third, one-third, one-third rule. I mean this...these same questions have been here for a long, long time. And I don't know how you want to move to solve it. All I'm saying to you is, if you enact a levy limit and then on top of that a budget limit and then you screw that budget limit down, you've already got hundreds of political subdivisions out there that are at their levy limit and many more who need the flexibility in their budget limits. So be assured you're going to do some considerable damage out there, whether you...whether that's the only alternative or not, I have to leave that to you guys. You know, I'm absorbed in trying to make Lincoln a good city and trying to make it produce in a way that will produce revenues for you to use, trying to figure out how to keep the kids here and the grandkids here and build our entrepreneurial programs and build our economic development so we'll have a place for our kids and a place for the kids that are coming in from the countryside. And we can't provide the infrastructure and have growth and move ahead if you're going to continually cut the means by which we do it. And I suggest to you that allowing the local people to decide through their elected officials what it is they want to do, what burden it is they want to bear, you know, to Lincoln people the ag question makes no difference and I'm not here really to talk about that section of the bill. But to give you an example, when I came into office people said, why doesn't government act like a business, why don't you move like a business moves? And if you look at a corporation, it has a management team, it has a board of directors, and it has stockholders. And if the stockholders are mad at the board of directors, they remove them and put somebody else in place. And if the board of directors is mad at management, they remove them and put another manager in place. They do not try to block every pathway with rules and regulations between the stockholders and the board of directors and the management because it all would become so cumbersome that nobody would say, move at the pace of private industry, because it wouldn't be moving very fast. Same thing is true of government. If you require votes of the people, of the stockholders, so to speak, on all of these different issues, if you enact this bill, I would predict that you're going to have multiple more local elections out there at great expense. But why don't we act like the private sector acts, like they're always talking to us about, and simply remove the public official, remove the management, remove the board of directors, the city council, remove the mayor and the city council through the elective process? That's actually what representative government was always supposed to be, and more and more we're being driven to direct democracy; that is, vote on everything. But I was amused by the fact that earlier today we were talking about, what do you expect people to do, pay attention to every little

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thing? Well, this bill is going to require elections on a lot of little things in the small towns and small political subdivisions of this state. Is that what you want the people to do, to have all their time taken up with studying the political process? Surely it would be better in some ways. But, my God, everything is going to be brought to a grinding halt. Am I talking too long? I'm sorry. I... [LB958]

SENATOR SCHUMACHER: Thank you. I mean you are in a position to experience a lot of the issues we're experiencing and thank you for your insight there. And it's a tough question because there's no free lunch and whatever we take from one we give to another. And in the end, I don't think we'll be able to raise sales or income taxes, good arguments to be made that we've got to maybe even cut them or certainly not increase them. So it's...and how we equitably divide this between large agricultural states and working folks in the smaller towns and the cities. You know the issues, so thank you for your response. [LB958]

CHRIS BEUTLER: Absolutely. [LB958]

SENATOR GLOOR: Thank you, Mayor, appreciate it. [LB958]

CHRIS BEUTLER: Thank you. [LB958]

SENATOR GLOOR: Good afternoon. [LB958]

RENEE FRY: (Exhibit 11) Good afternoon, Chairman Gloor and members of the Revenue Committee. My name is Renee Fry, R-e-n-e-e F-r-y. I'm the executive director of OpenSky Policy Institute. Agricultural landowners have seen their property taxes rise steeply over the past decade. LB958 attempts to address this issue by limiting local spending. But if you look at the first chart in the handout, you'll see that local government spending growth in Nebraska has been flat as a share of the economy during this time. Since local government spending is not the direct cause of rising agricultural land values, we do not believe further spending restrictions are an appropriate solution. Furthermore, we are concerned that the assessment cap will disparately impact taxpayers and would reduce revenue for schools, counties, community colleges, and other local governments that will likely lead to cuts to services or higher property taxes for many Nebraskans. And while the cap would have a similar impact to proposals to reduce the taxable value of agricultural land from 75 to 65 percent of market value, the assessment cap will compound and continually separate the taxable value of agricultural land for market value. For example, had the assessment cap been in effect beginning in 2005, agricultural land would only be taxed at 30.7 percent of market value in the current year, as opposed to the current 75 percent of market value. As a shift occurs, you would likely see requests by residential landowners and commercial property owners for their own property tax breaks. Such consequences are why the

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Lincoln Institute of Land Policy wrote that assessment caps are among the least effective, least equitable, and least efficient strategies available for providing property tax relief. In order to illustrate how the cap would work, we modeled the impact of the proposed growth cap had it been in effect this fiscal year. I would note that agricultural land valuation hit its peak of 29 percent growth between 2013 and 2014, the years that our analysis is based on, while the agricultural land valuation growth projection used by the Legislative Fiscal Office to predict the future fiscal impact of the assessment cap is 8 percent. So I'll ask you to take a look at charts 2 and 3 to see how the cap has a disparate impact on taxpayers. For time constraints, I will not read through these, but I'd be happy to do so during questions. Our second concern is the loss of revenue for local governments. If the assessment cap in LB958 had been in effect this year, it would have created a \$212 million shortfall for schools and other localities, including \$144 million shortfall for K-12 schools, \$42 million shortfall for counties, \$15 million for community colleges, and \$11 million for other local entities. To replace these losses with property taxes, levies would have had to increase 11 cents on average, but this would run at least some local governments into their levy limits. The average school levy would have had to increase about 7.6 cents, but 102 school districts would have been pushed over \$1.05. As with 75/65, farmers and ranchers in the high ag area would see the largest levy increases and the smallest tax reductions. I would also comment briefly about the state budget fiscal restraint that has been mentioned a few times, and I would note that a large reason that the state was able to keep this last budget to 3.5 percent growth was because TEEOSA grew at just over half of its usual average growth. So what happened was, we were able to keep budget growths...state budget growth low by relying more heavily on property taxes to fund K-12 schools. For these reasons, we oppose LB958. Thank you for your time and I'd be happy to answer questions. [LB958]

SENATOR GLOOR: Thank you, Ms. Fry. Questions? Don't see any. Thank you. Next opponent. [LB958]

DOUGLAS KINDIG: (Exhibit 12) Good afternoon, Chairman Gloor, members of the Revenue Committee. My name is Douglas Kindig, K-i-n-d-i-g, and I serve as the city of La Vista...the mayor of the city of La Vista. I'm here today on behalf of the United Cities of Sarpy County, which includes the cities of Gretna, Papillion, Springfield, and La Vista. I am testifying today in opposition of LB958, the stated intent of which is to slow the growth of property taxes leveled by the political subdivisions. I've handed out copies of my testimony and also a separate letter you should have received. While we understand and appreciate your efforts to examine the tax situation in Nebraska, the implementation of LB958 will have serious and potentially unintended consequences. Our governing bodies take very seriously their responsibility to establish property tax rates that will allow us to plan for and provide essential municipal services and quality-of-life amenities desired by our citizens. Although one of the stated intents of LB958 is to slow the growth of property taxes levied by political subdivisions, we would argue this is actually an antigrowth bill that will prohibit or stifle economic growth. We are cities located in Sarpy

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County, the fastest growing county in the state. This growth has not only been important for our communities, but also for the state of Nebraska. I can tell you that this growth would not have happened without our ability to build infrastructure, much of it through interlocal partnerships and the ability of our communities to provide quality municipal services. The net effect of the proposed legislation is the reliance on the sales tax which is less predictable and susceptible to varying economic conditions and consumer confidence. The recent economic recession, coupled with operational cost increases beyond our control, have made us keenly aware of the importance of the stability and predictability that property tax revenues provides for our municipalities. The state's economic development incentive programs and privately negotiated agreements also affect our sales tax. In La Vista alone, since 2014, sales and use tax revenue in the amount of \$4.99 million has or is anticipated to be withheld. At best, we may only be given a year's notice that we will have to go several months the following year without receiving sales tax. Another consequence is our bond issues may raise in interest rate. At this time we can guarantee the bonds by having to raise taxes, as Mayor Beutler mentioned. The interest rates, if we're not able to do that because we have to go to a vote of the people, could increase, which in turn could cost our city and our citizens more money. La Vista has had the right given to us by our voters through an election on a couple of initiatives. I'd like to, maybe, have a question on that if I could. But I'd like to close with this because I think it's my most important comment--as fellow elected officials, we understand the desire to improve the tax structure in our state. However, advancing LB958 is not the way to do it. We strongly believe that you cannot just pick one area to focus on without consideration of all potential consequences. This requires involving stakeholders in the discussions from the outset. We would welcome the opportunity to work with you, the Governor to explore ways and to look at all possible options. I want to thank you for allowing me to testify in front of you today and I'd be happy to entertain any questions. [LB958]

SENATOR GLOOR: Thank you, Mayor Kindig. So tell me how you believe the voters have given you approval for some spending initiatives. [LB958]

DOUGLAS KINDIG: Twice in the city of La Vista on the optional sales tax, on the initial half cent, and then on the next additional half cent, which is specified for a specific project in our city. In my case, it's for 84th Street redevelopment. If you've come to my beautiful city, one eyesore that you've seen is an empty mile stretch of road when a Walmart moved out. The citizens overwhelmingly, I believe, 62 to 38 percent, agreed to raise our sales tax; that money to be spent specifically for 84th Street redevelopment. What LB958 does makes me go back to the voters and say, now I want to spend the money on what you've already given me the authority to do. The other is, the city of La Vista's voters gave us the right to implement LB840, which is the Local Option Municipal Economic Development Act. They've give us the right with the intent. They knew what we were going to do with that money. We've used it for a number of things from the Southport development, the hotel/conference center, which has generated tremendous revenues. The investment out there is paid back to us in less than two years. So we know that

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there is a tax issue in the state of Nebraska. I don't think anyone in this room is denying that. But I think it's very important that we sit down together and we don't just make a change, to be honest, to make a change. I think you do have to bring all the shareholders together. I think it needs to be done over a period of time that is not rushed by, to be honest, only 40 days left in the session. And I think it's important to know that in La Vista, as an elected official, I want lower property taxes. We've had tremendous growth in the city. Tremendous growth costs money. We lost 84th Street; it was almost...well, probably 25 percent of my sales tax revenue. But at the same time, I've increased in the last 10-11 years 8,000 to 9,000 people. I used to be 10,000; I'm about 18,000. In the last number of years, and this was an interesting fact, in the last ten years our sales tax has increased by \$43 million...increased. In the last ten years, just in the city of La Vista alone, the state has seen \$140 million come back to the state. I believe that our property taxes have been used as an investment in our city. I would like no better than to tell my citizens, as I diversify my tax base with the investments that we've made, along with the state help and some of their investments, that we do want to lower property taxes. It is a local decision. I've been fortunate enough to be the mayor for ten years. I've been fortunate enough that they have not tried to recall me. And I do believe that the citizens have the right, and it is called the basic concept of how our nation was formed, and that's on an election process. Willing to work with the committee, with the Governor. But we need to leave this in the hands of the local officials. [LB958]

SENATOR GLOOR: Thank you. Any other questions? Senator Brasch. [LB958]

SENATOR BRASCH: Thank you, Chairman Gloor. And thank you, Mayor Kindig, and good to see you again. You've come before this committee multiple times and it's always an honor and a pleasure to see you here. [LB958]

DOUGLAS KINDIG: I'm kind of missing Senator Harr's questions today a little bit, but... (Laughter) [LB958]

SENATOR BRASCH: He asked me to fill in for him. [LB958]

DOUGLAS KINDIG: Thank you. [LB958]

SENATOR BRASCH: Not really. But, you know, I congratulate you on all your accomplishments. But you did say that your voters decided on your sales tax and so you've had elections. And as you come before us, again, the same with Mayor Beutler, the state of Nebraska, you know, we hear you and others come before us, but we really have to be tough and stay within our 3 percent, truly, because that...we go outside of that 3 percent, we know it's by the means of someone's sweat equity. That dollar doesn't come out of a magic machine or

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something. And the same on the local. Okay, if 3 percent is not good, how much do you grow? How much do you want? How much do you...to ask of your constituency? More than 3 percent? How much do families spend? Is it more than 3 percent? Why is 3 percent unreasonable? It seems to be part of your discussion here. [LB958]

DOUGLAS KINDIG: It is. And thank you for that question, Senator. Just a little history as far as La Vista goes. My operating expenditure growth over a four-year average is 1.3 percent. Okay? [LB958]

SENATOR BRASCH: There you go, so under the 3 percent. So we're not asking... [LB958]

DOUGLAS KINDIG: Right. Can I explain why? [LB958]

SENATOR BRASCH: Okay, all right. [LB958]

DOUGLAS KINDIG: Thank you. We are very aware that we have to toe the line as care holders of the citizens' taxpayers' dollar. Even though the city has grown by almost 100 percent in population, our sales tax base has grown, we've held back hiring new staff. We have not implemented certain programs. We have used existing staff in a reorganization plan to make ourselves more efficient. We haven't replaced playground equipment as quickly as we should have. Maybe we haven't replaced some equipment; our public works is awful good, as many of the rural people here today know that baling wire and duct tape can do wonders. But as we continue to grow, at some point in time you have to invest back into the community. And that very well could be above that 3 percent. As a matter of fact, the number I gave you at 1.3 percent didn't include something, because that actual number over a four-year average is 4 percent. The number I didn't include, Senator, was the merger of our fire department with the city of Papillion. We were a volunteer organization. They worked extremely hard and were dedicated for years, but were no longer able to answer the calls quick enough. We had to make a decision before...to be honest, I was afraid of standing behind a podium saying, I wish we could have gotten there quicker. So we looked at options for a volunteer fire department--having our own, merging with the city of Papillion and Papillion Rural Fire District, or maybe just doing the medical part of it but still keep the fire. But when we looked at it, the last one didn't answer the questions that we were worried about. The first one we couldn't afford. The second one, through an interlocal agreement, is going to save the citizens of La Vista almost \$1.8 million a year. But there was initial investment. It cost more to join than what our volunteer fire department was doing. [LB958]

SENATOR BRASCH: Was there an election to do this merger and to...? [LB958]

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DOUGLAS KINDIG: No. [LB958]

SENATOR BRASCH: It was an executive decision. [LB958]

DOUGLAS KINDIG: It was an executive decision. And I think it's very important that...it's easy to say, well, if it's good then take it to the people; they'll agree with you. And I would disagree with that at some points, because I think Mayor Beutler did a nice job of how do you inform the public. And I want to be transparent. But when we did our local option sales tax, the first one, it was sunseting and it was time to run it again. And I actually got asked to run that election. I wasn't an elected official then. I was a barber. We did a special election. We had 300 people show up, Senator. Is that truly how we want to run our governments is to put the hands of major decisions into maybe 300 people who may be the special interest groups? I will tell you that the volunteer firefighters did not agree with our decision, but they were a powerful force. They could have gotten 300 votes. I don't want them swaying the election. I'm not smarter than my citizens, but I do pay a little more attention to our issues. And that's what we're asking is that we maintain local control. [LB958]

SENATOR BRASCH: Very good. Thank you. [LB958]

SENATOR GLOOR: Senator Davis. [LB958]

SENATOR DAVIS: Thank you, Senator Gloor. And welcome, Mayor Kindig. You said you had in La Vista alone since 2014 sales and use tax revenues in the amount of \$4,994,000 are anticipated to be withheld. Can you elaborate on what you mean by that? [LB958]

DOUGLAS KINDIG: Yeah, that's Nebraska Advantage. And I've been in front of a couple of committees and probably talked to a few of you a number of times. But, actually, next week Senator Crawford is carrying another bill to try to bring some transparency and some better reporting on Nebraska Advantage. But I feel like that a number of us, but I think the United Cities has been a little bit of a leader, along with the League, on trying to make the Nebraska Advantage Act more transparent and more, I guess, reportable back to the cities so that we know how to budget. As you know, approximately three years ago, La Vista got a little gift in the mail that said we owe \$2.4 million. We went without sales tax for five months. It's gotten better. They now give us a year to prepare. But we're guessing a little bit of how much to withhold because we can't get all that information. [LB958]

SENATOR DAVIS: And I applaud you for that. I think we need more transparency, absolutely. [LB958]

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DOUGLAS KINDIG: And we're working on that. [LB958]

SENATOR DAVIS: I'm assuming, also, that La Vista uses tax increment financing for... [LB958]

DOUGLAS KINDIG: We have never used it, sir. [LB958]

SENATOR DAVIS: You haven't. [LB958]

DOUGLAS KINDIG: We do have a plan that we could use it for 84th Street. We have never used tax increment financing. [LB958]

SENATOR DAVIS: Can you tell me how much your sales tax...or your property taxes have increased over the last 20 years in La Vista? [LB958]

DOUGLAS KINDIG: I'm going to have to get it for you, sir. That may be the one...I will get that for the committee. I don't have that figure with me. [LB958]

SENATOR DAVIS: Wouldn't it be safe to say, though, that sales tax have been the driving generator of revenue in La Vista over the last 10 or 15 years? [LB958]

DOUGLAS KINDIG: Again, I don't have those figures. And I can feel my staff squirming back in La Vista right now. We probably are somewhere...we run at about \$14.7 million budget. Sales tax comes in somewhere over \$4 million. Remember, I don't know how much of that is going to come back to the state. So we're very conservative in our approach there. We only budget about 3. And then, obviously, our fees. La Vista is diversified because of our hotel/conference center and we're looking to get a way. We know we're land locked. We can't rely on property taxes forever, I know that. I can get all of those figures for you. But we have tried to use the property tax, I guess, as an investment in our future so that we can have other taxes which supplement our community. [LB958]

SENATOR DAVIS: So my question or my point, I guess, is we heard Mayor Beutler come and talk about Lincoln's property taxes and where they had gone and how the levy had dropped. And one of the differences between urban Nebraska and rural--and a lot of the folks that are in this room who are proponents of this bill are rural people--and it's because school finance is completely reliant upon property tax in the rural parts of the state. And that, I think, is the problem that the Governor is trying to address with this bill. [LB958]

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DOUGLAS KINDIG: And I, to be honest, I'm not well spoken enough on that. I totally sympathize and I think I understand their, you know, the situation that they're in. Because I do have a way of diversifying my tax base to where school districts don't. I will tell you, to answer your question, I will get you the exact figures; for the last five years we have not had a property tax increase. [LB958]

SENATOR DAVIS: Thank you. I wish we could say the same in rural Nebraska. [LB958]

DOUGLAS KINDIG: I agree. [LB958]

SENATOR GLOOR: Senator Harr. [LB958]

SENATOR HARR: And I'll keep it brief so you can get off the chair. And I apologize. As you know, there...we have bills in other committees. I guess my question is, and I don't know, maybe you said it. If you did, I apologize. What would you say...I don't think anyone disagrees that we have a property tax problem. How do you think we become less dependent on property taxes? [LB958]

DOUGLAS KINDIG: Well, first of all, do we have a property tax problem? I think if you look at some of the national rankings, and maybe some in the Midwest, it shows that Nebraska has a property tax problem because we rank high. I can also point to a poll that shows that Nebraska is 47th in state aid back to the local communities. So if you're going to compare, we need to compare everything. How do we solve that, sir? We do it through diversification. We do it through, maybe, strengthening our tourism industry. We do it through, maybe, conservation of energy. We do it through a solid infrastructure of roads to help grow economic development. We do it through being efficient at every level we can, and the list can be whatever you want to put into that. But we also have to be wise in our investments. I think the way to control the property tax problem is through strong economic growth, which will help diversify that tax base. It may not solve the rural problem, and I don't...I'm not versed on that, but I do know, in my mind, how to do that in a metro or a city area. [LB958]

SENATOR HARR: Thank you. [LB958]

SENATOR GLOOR: Seeing no further questions, thank you. [LB958]

DOUGLAS KINDIG: Thank you. [LB958]

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SENATOR GLOOR: Can I see a show of hands, how many people plan to, on this bill alone, speak in opposition? Okay. Look around, understand we are getting close to 4:00 and there are a lot of people who still wish to speak. I tell you that because there may be an opportunity for some of you to say something that you've heard before, but count me in; I have problems in this specific area. Also, can I also see a show of hands of those who have traveled a long way and have a long way to go before they get home tonight. Put your hands high. Okay. Look at those individuals and if they need to get sharp elbows and get closer to the front so that we can give them a chance to get back. Just understand there are people who have a long way to go before they get home tonight, so a courtesy to let them try and get to the front if you would. Welcome. [LB958]

MIKE MARVIN: (Exhibit 13) Good afternoon, Senator Gloor, members of the committee. My name is Mike Marvin, M-i-k-e M-a-r-v-i-n. I'm the executive director for the Nebraska Association of Public Employees. We are the union representing the vast majority of state employees. I'm here today in opposition to LB958. Broadly speaking, we believe it is a bad bill. It is getting sold as a means to provide property tax relief for Nebraskans, but it ignores the sacrifices that will be forced upon people who can least afford to make them. This bill will put local governments in a bind where they will either be forced to cut vital services that people desperately need, raise their levies where they can in order to make up property tax revenues, or turn to the state for additional aid to fund programs that would otherwise be cut. LB958 does not immediately at this point have significant direct bearing on state spending or on state employees' jobs, or so it would seem, not yet anyways. But I would argue that indirect impacts will have a significant outcome in the coming years. This could happen one of two ways. First, there is a fact that there will be additional state funds required in order to address the local money shortfalls that LB958 will create through the spending limitations imposed and due to the losses in revenue caused by land valuation growth caps. The fiscal note already lists a conservative estimate showing additional state aid to education money that will be needed, but from other analysis I've seen, the shortfalls for local governments will be significantly larger than this and will require additional state funds. We're already in a spot, we are forced at the state level to make tough decisions regarding how to deal with staffing and funding for a whole number of different issues from Corrections to ACCESSNebraska. And it doesn't make a lot of sense to pass legislation that would make those decisions even harder. This could even lead to lost state jobs and more problems keeping quality staff, as we have seen that's a real issue. Second, this is a philosophical issue. Nebraska doesn't want spending caps on the state level, and they've been quite clear about that. But here we are trying to add additional spending caps at the local level, and I worry the state will be next. These spending caps don't teach us to spend wisely. Nebraskans do that because we are prudent with our resources and we balance our budget. Spending caps take away the local ability to address problems when they arise and respond to tough economic times. Ultimately, spending caps will lead to cuts in services and jobs that many of our members provide and hold. The final thing I'd say is just a quick reminder of how much tax relief we've

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already provided over the past several years. We've cut taxes on Social Security, indexed our income taxes for inflation, cut income taxes, and provided other tax relief. I get that property taxes are high--I pay them too--right now for some of our folks. But ag land values will come back down and things will, hopefully, balance out. In the meantime, think about the totals of all the income taxes we cut, balance it out. I see my red light is on. I will end my testimony then. I will be happy to answer any questions and I want to thank you for your time today. [LB958]

SENATOR GLOOR: Thank you, Mr. Marvin. And thank you for mentioning the tax cuts that have been enacted in the past couple of years...and the yellow post cards, which I love. (Laughter) I do. Gives me a chance to talk to my constituents about the Property Tax Credit Program that they didn't realize was out there. So, thank you. [LB958]

MIKE MARVIN: This committee has done a wonderful job over the last several years of trying to put tax money back in the taxpayers' hands. [LB958]

SENATOR GLOOR: Thank you. You'll get a Christmas card this year. [LB958]

MIKE MARVIN: (Laughter) Thank you, Senator Gloor. [LB958]

SENATOR GLOOR: Are there any questions? Thank you, Mr. Marvin. [LB958]

MIKE MARVIN: Thank you. [LB958]

SENATOR GLOOR: Good afternoon. [LB958]

HAROLD PETERSON: Good afternoon. My name is Pete Peterson, the ex officio mayor of the city of Ogallala. And before I get started with what little testimony I have, since a lot of it has already been said, I have a couple of other hats that I wear. I'm a full-time employee of Keith County and have been in excess of 40 years and manage a rather large interlocal agreement there. And then, the strangest thing about me, probably, is in the summer I spend my vacation, weekends, and nights doing consulting services where I do a budget facilitation process for 16 of Nebraska's counties and about ten of their fire districts, most of which of those counties are in either Senator Schilz's or Senator Davis' district. The far northeast I go would be in Bassett, Rock County. So I would like to thank you for the opportunity to speak with you today. And, primarily, my concerns with LB958 deal with the lid exception portion, the unused budget authority against calculation and, as I have time, to talk a little bit about the voting issue of the...the voting of the citizens. So lid exceptions, you'll find that there are two of them in particular that I would like to address. A lot of local governments, in fact, all local governments

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that I'm familiar with use the lid exception for capital improvements to do some kind of road improvement. And so they have that there. They use it as an exception for the lid. They can then put it back in to the next year and so develop some kind of a process for keeping streets and/or roads in some kind of a condition. We heard that the citizens are screaming about their property taxes being too high. Last fall, I was listening to citizens scream about the condition of their streets and roads. And this week, it's been sometimes nonstop telephone of people screaming about not enough money budgeted for snow removal. So you...it all depends on the given day where people may happen to be in that whole issue. So that's where I come from as far as wishing you to consider eliminating that or keeping that in as a lid exception. As far as interlocal agreements, back when interlocal agreements first became popular, they are a lid exception, and that was as an incentive to local governments to enter into those lid exceptions and enter into those interlocal agreements to save local taxpayers' money. And they have been very, very effective. And then, if you will, as a bonus, they can...the local governments can rely on that outside of their 3 percent increase of restricted funds per year. I am the manager of a 911 center that serves a full eight counties that includes two cities and just had a phone call, about a week and a half ago, from another city and county that are also interested in opting in. All of which, when more add, it saves them money, it saves Keith County money. And it, ultimately, saves property tax because that's where the revenue comes from. So that incentive is there as a lid exception. When it goes away, it's gone. And I see that I am already out of time. [LB958]

SENATOR GLOOR: Senator Harr. [LB958]

SENATOR HARR: Thank you, Mayor. You've come a long way. Would you like to finish what...your thoughts? [LB958]

HAROLD PETERSON: I just have a few. I don't have very many, but I do appreciate that. Thank you. The second thing is how the unused budget authority is to be calculated. As LB958 has been interpreted, the first year we get to add some things back in. But then by 2017, the unused budget authority is then also capped at 3 percent per year. Unused budget authority is there for local governments who do not take all of their property tax increase. They don't lose any. It goes in there. So if they have a need for it then they can do it in ensuing years. Votes of the people--I fully understand that. I agree with the other speakers that the best vote is not to reelect me or to recall me if they don't think I'm making appropriate decisions. I work with small local governments that would have to have a bond just to replace a heating and cooling unit in a courthouse. And to get voters to...if you can imagine voters saying no to that, then where does that leave local government? Back when the fire districts first came under the county's levy, that first year they either had special elections or town hall meetings when the county had to tell them no. Of course you took care of that last year in legislation with the fire districts. But this is an example of before that. The volunteer fire district of Madrid, Nebraska, just needed to go to voters to get approval for their operations for the year. They chose the town hall option of one

year; the voters told them no. You can only have so many pancake feeds and so many meals and so many fund-raisers, which they did have, in order to try to make ends meet. And that is not a way to run a public safety agency. You need that fire protection. The Brule fire district, very quickly, with bonds, they have a bond for...it's outside of the levy limit, it doesn't qualify...or the lid limit. But they have a bond to buy replacement vehicles. As soon as that bond is up, I think they are ten-year bonds, as soon as it's up, they immediately revert right back into another one. It keeps the tax levy pretty much the same for their whole district, yet they're continually able to improve all of their equipment. If that became something that would have to go to the voters, that might be kind of a struggle for them. And I think that that is probably about it. I appreciate you giving me the chance to speak a little longer. And I would leave you with the thought that with all the different counties and folks that I work with, I have yet to meet a nonconservative local-elected official. And I don't think where I'm from I ever will. [LB958]

SENATOR GLOOR: I do have another question, Mr. Peterson. [LB958]

HAROLD PETERSON: Sure. [LB958]

SENATOR GLOOR: So you're sort of the out west expert when it comes to budgeting for a variety of our levying organizations. What nugget do you have for us that...when we've not heard many things that are...if you're really looking to do something, here's an opportunity that might make a difference. Do you have anything that fits into that category? [LB958]

HAROLD PETERSON: I think encouraging additional interlocal agreements where possible. The dilemma there becomes...we're a proud people who like to keep what we have, but I think education there and encouraging more interlocal agreements is a possibility of something to look at. [LB958]

SENATOR GLOOR: What's forced communities to join the...to be part of that 911 center? [LB958]

HAROLD PETERSON: Money savings and additional efficiency. [LB958]

SENATOR GLOOR: Was it something that their constituencies demanded? [LB958]

HAROLD PETERSON: I don't know that the constituencies demanded it, but at least one of them was in a position of needing to replace their 911 equipment of a tune of about \$350,000. That's...one other thing. I don't think voters are unintelligent. I just don't know how much

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attention they pay to certain kind of things. And so to try to convince a voter that a telephone system costs \$500,000, or whatever it may be, would be a tough sell. [LB958]

SENATOR GLOOR: Okay. Thank you. Other questions? Senator Sullivan. [LB958]

SENATOR SULLIVAN: Thank you, Senator Gloor. Thank you, Mr. Peterson. What about the unused budget authority, reining that in? What kind of problems does that cause? [LB958]

HAROLD PETERSON: Well, I think it...it limits any kind of flexibility whatsoever. A lot of these things in LB958 limit flexibility. That one does. If a local government does not take their whole 3 percent, the current calculation in the budget forms carries that into that unused budget authority, which then carries over to next year. It allows in somewhat...it's not really a savings, because the money is not collected. It would just be there to assess as tax if it were to be necessary some year. And when you talk about economic development, there's not a lot of that in western Nebraska unfortunately. We're working it more and more all the time. But if you need access to that, you would have a year with which to generate that revenue, either realizing once that decision is made those taxes are not going to come in, from the time the budget is approved in September, half of those taxes won't even come in until the following April. So it's still quite a time period, but it does create some flexibility there. [LB958]

SENATOR SULLIVAN: Thank you. [LB958]

HAROLD PETERSON: You bet. [LB958]

SENATOR GLOOR: Seeing no further questions, thank you. Thank you for coming in. [LB958]

HAROLD PETERSON: Thank you. And don't be offended if I don't stay for the whole hearing. [LB958]

SENATOR GLOOR: We won't, we're not taking names. [LB958]

HAROLD PETERSON: I'm going to stay for a while, but...thank you. [LB958]

SENATOR GLOOR: Good afternoon. [LB958]

ROBERT POST: (Exhibit 14) Good afternoon. Chairman Gloor, honorable committee members, thank you for the opportunity. My name is Robert A. Post, R-o-b-e-r-t A. P-o-s-t, and I'm the

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2016 president of the Nebraska Association of County Officials and I thank you for your time. The section of LB958 that moves the interlocal agreements to restricted funds will discourage the use of these types of agreements. Their purposes are for entities to work toward a common goal without duplicating efforts and expenses. It seems counterproductive to restrict the flexibility needed to promote these agreements in the efforts to save money. The next section moves capital improvements and sinking funds to restricted funds. This probably is the most detrimental portion of the bill. The fact that we can only grow 3 percent is so discouraging. This 3 percent will most likely be used up in operations and will not allow capital improvements. And I want to expound on that. Pete talks about the county roads. We put our county road construction in capital improvements. If we have to have that in capital improvements and we're capped on it, our road program is going to die. Sure, there's a provision for an election, but elections are expensive and take a long time, holding up progress. We need the flexibility to reevaluate sinking funds to address unforeseen events. The delay of an election can turn a bad situation into a crisis. We as commissioners are elected to do a job, and this just stymies our efforts. The election could be misunderstood, once again, as Pete talked about the fire districts, as this has happened in the past to fire districts and ag societies when they were forced to become self-levying entities. Much needed improvements and reconstructions might not happen as citizens misunderstand or simply choose to take sides. We were elected to make these decisions with a clear understanding of the needs and unbiased views. That's our job. It seems to me that every so often property taxes become a boiling point. The actions taken several times in the history of Nebraska have resulted first in a levy limit and then an allowable growth limit. The truth is, we really don't need to reinvent the wheel. Our form of government allows us a spending restriction to be enforced every four years. It's called an election. I'm not aware of any board member who runs for election wanting to increase taxes. Each year the Legislature passes bills creating unfunded mandates. Though some are small, they all add up. During the tax modernization hearings the hot topic was property taxes. Regarding those taxes, I doubt that too many people told you that the county was wasting money by grading the roads too often or the hospital was wasting money having the emergency room open for too many hours. Often there was a discussion of the TEEOSA formula, K-12 schools and community colleges. I truly believe that most in attendance felt that the relief should come from the state. And the relief should come in the form of a true commitment by the state to equalize the cost of education by paying their fair share, not piecemeal relief efforts. History shows those don't work. We in Banner County, as other counties with oil properties, are facing an approximate valuation reduction of 50 percent on those properties. I'm not sure the 3 percent increase of ag land will make the difference. It may force an increase in residential valuations in the village of Harrisburg, some of those who are least able to absorb the increase. Thank you. Are there any questions? [LB958]

SENATOR SCHUMACHER: Thank you, Robert. Senator Brasch. [LB958]

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SENATOR BRASCH: Thank you, Senator Schumacher, acting Chair. I want to thank you as well, Mr. Post, for coming in here to testify. [LB958]

ROBERT POST: Thank you. [LB958]

SENATOR BRASCH: And you've hammered on that 3 percent, 3 percent. And that's what we're doing here, state of Nebraska. And it's because that dollar is coming from people, individuals. And I live in a rural area. And when I was elected, we had the redistricting because all the population kept shifting out of our rural areas into eastern part of the state. We gained more senators in Omaha and the Lincoln area. And I'm just a little surprised, if 3 percent is hard to live with, how much do you think the counties need? How much...what percent of growth or budget should you ask that person in Bancroft where there's only half a dozen businesses, if that many, open on main street anymore, because everybody has moved along down the road? What do you need? What is a good figure? What is healthy? What do you need to make rural Nebraska sustainable? [LB958]

ROBERT POST: Well, I would first like to say that it's interesting that we use the state, for example, but the difference that I hear is the state is trying to stay under 3 percent. These bills aren't going to give us the opportunity to try; they're going to force us to do it. And I will say that, probably, most counties are very, very good at that. I'm guessing their growth is at about that range. The thing that you have to realize is I'm from Banner County, we're very rural, we have six road graders. The newest one is a 2005. We're struggling along with those machines. And in the last storms we had, not this one but the one prior, by the time we got done with the first round of the roads, we had two machines that were still running. So we take the opportunity to repair the machines as we can and get them back out on the road. Without...we have a sinking fund to replace a road grader, but if a situation comes up to us, and it's very likely that it's going to happen, that we need to replace two machines, we need to be able to just say, we've got to have another machine; we've got to put more money in a sinking fund. And I'm going to tell you that elections are difficult in the first place; they're expensive and they're difficult to get the people together. Oftentimes, they don't understand. And I'm just afraid that there's going to be battles between this group and that group and the election won't pass. [LB958]

SENATOR BRASCH: Do the counties have the ability to tap into the...let's say, inheritance tax on roads equipment and things like that? [LB958]

ROBERT POST: We do have. We do have. [LB958]

SENATOR BRASCH: You do have. So there is a...and, heaven forbid, you need a new road grader every three years or so. Those are built to last a while, are they not? [LB958]

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ROBERT POST: They are. But our inheritance tax will buy one road grader. When I took office, there had been a tendency to use the inheritance taxes for operating, and I think there's probably other counties that have, and that's a Catch-22, because as people get better at handling their estates, I think you're going to see a reduction in inheritance taxes. In the rural areas, people are learning how to pass down the farm without paying so much inheritance tax. So we don't tend to want to rely too much on that. That is absolutely the "rainy day" fund that if we get...let's say...we missed the blizzard, but say we got the blizzard like Grand Island and Kearney got, it would be difficult. [LB958]

SENATOR BRASCH: And I understand that. That's the "rainy day" fund. But you...I thought you were talking about "rainy days" when you were talking about your roads equipment and things. [LB958]

ROBERT POST: Well, it can always be a rainy day in our county. [LB958]

SENATOR BRASCH: All right. Okay. Yeah, I do appreciate, but I'm just curious. So, but you're saying they do live within 3 percent most the time. I was looking for some... [LB958]

ROBERT POST: I would say...I don't have that fact, but I know that we're very careful and we're very aware of that, and I can't remember ever going to the people to take that extra increase. Pete is the guy that can answer the question. [LB958]

SENATOR BRASCH: Because the last gentleman said they're about 1.2 percent with an exception of 4 percent. And so when someone comes here and...you know, I'd like to know. If 3 percent isn't good enough, tell me. [LB958]

ROBERT POST: On a normal basis, 3 percent would be good enough. [LB958]

SENATOR BRASCH: Is good. Okay. [LB958]

ROBERT POST: But it's almost...it's discouraging to me to think that we're not trusted enough to be able to manage our own business because we know the cost, we know the events that require our attention. We just...I just don't think that going to election for every little detail is necessary, and really counterproductive for the way government should run. We were elected as commissioners and supervisors to do a job. If they don't like how we do the job, the opportunity comes for them to either run, get us off the board. [LB958]

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SENATOR BRASCH: And I don't believe it's a matter of trust. As legislators, we look at transparency. And, again, seeing that you're saying that 3 percent is just something you'd prefer not to be mandated is what I'm hearing, basically. But it's something that is within what's already in practice. [LB958]

ROBERT POST: It's a goal. And I think most people have already abided by that goal. It actually was 2.5 percent. [LB958]

SENATOR BRASCH: Two and a half. Very good. I've no other questions. I do want to thank you for coming here and I know that your group is very important, because rural areas and the counties do need a voice. So thank you. [LB958]

ROBERT POST: Thank you. [LB958]

SENATOR SCHUMACHER: Senator Harr. [LB958]

SENATOR HARR: Thank you. And thank you for coming in. Earlier, it was stated that individuals don't have time to attend all the board meetings for all the elected officials out there...or positions that do levy a property tax. I guess my question is, and that's why we need to have this 3 percent cap on there. Would you like to respond to that at all? [LB958]

ROBERT POST: Well, I'll be truthful with you. I can't remember the last time we had anybody at our budget hearings. I went to our school board when I first got elected, just in an interest, they had broke away from the silliness of budgeting \$1.05 so they could get state aid money. We have a nice concrete parking lot in our school for a tiny little school because we had to spend that money. And so I went to their budget hearing because they had broken away and I was just going to say thank you. They didn't even have any copies of any of the information for me at the desk. They never have anybody come to the budget hearings. So you hear it in coffee shops; we heard it loud and clear at the modernization hearings, but I really think that the people that were at the modernization hearings want the state to pay their fair share. When was the last time we were at a fair share where the state paid for the third of the education that they should? We had a bill two years ago? Last year? Senator Davis put the bill in for the community colleges to reduce their funding and get them back to a liveable figure. It didn't come out of committee. But those are the things people want to see. [LB958]

SENATOR HARR: Great. Thank you. [LB958]

ROBERT POST: Thank you. [LB958]

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SENATOR SCHUMACHER: Senator Scheer. [LB958]

SENATOR SCHEER: You might have answered my question. You said the state should pay its fair share of the K-12 education. And you're saying that should be a third? [LB958]

ROBERT POST: Well, I think that's the common rule of thought. [LB958]

SENATOR SCHEER: I don't know. That's why I'm asking you. Your opinion or your association thinks it should be a third of the total cost? [LB958]

ROBERT POST: Well, that, like I said, that's been the common thought since probably the '60s. And I'm sure if you studied the first time the property tax was implemented, that was the goal. [LB958]

SENATOR SCHEER: Okay. Thank you. [LB958]

ROBERT POST: Thank you. [LB958]

SENATOR SCHUMACHER: Senator Davis. [LB958]

SENATOR DAVIS: Thank you, Vice Chairman; and good to see you, Bob. [LB958]

ROBERT POST: Thanks, Senator. [LB958]

SENATOR DAVIS: Banner County, tell me what you do in order to try to control costs there presently. [LB958]

ROBERT POST: Banner County, like I said, with our newest machines of 2005, and we spend a lot of time repairing, like I said, the last storm we were about out of machines. We do interlocal agreements; we do a lot of interlocal agreements. It's a pretty good chunk of our budget because we work with other entities to accomplish goals that we can't accomplish by ourselves because we are so small. We...I would just...we're farmers and ranchers, as I am, and we just hold the belt as tight as we can because those taxes are hard to pay, I know that. It's not that I don't understand that. And the two guys that sit at the table with me, they know that too, they understand it. But there reaches a point where you've got to decide, do we need to keep those roads up in shape so we can get the cattle and the grain to market, and do we need to maintain so that the fire service

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can continue with what they do? I don't know if that really answers your question, but we are very conservative. [LB958]

SENATOR DAVIS: Well, I think the point I'm trying to make is, almost all the county commissioners I know are extremely frugal in trying to manage the resources that they have available. And do you agree with that statement? [LB958]

ROBERT POST: I would absolutely agree with that. Serving on the board, it doesn't matter whether we're from Lancaster, Douglas County, or from Banner County or Cherry County, we all kind of have the same goals. And I don't know one of them that their goal is to just see how much money they can spend. [LB958]

SENATOR DAVIS: So you mentioned the community college piece. I know that's been an item in our part of the state for a long time. Would you care to comment on that any more in terms of how it impacts property taxes? [LB958]

ROBERT POST: Well, it's a pretty good share. They take a pretty good chunk. They always tend to be at the top end. And the thing that's a little bit discouraging is when you read in the paper they get the news clippings and the news clippings says, well, we didn't increase our levy any. Well, I think you all very well know what the valuations have done and so they still get a pretty generous increase. [LB958]

SENATOR DAVIS: With a bill like this, do you envision this as forcing consolidation of counties and school districts over time? [LB958]

ROBERT POST: Well, we've even discussed that on occasion. We look around at the other counties around us and if we were to move to them, we'd probably be at the same mill levy or maybe even a higher mill levy. So we're really not sure that it's going to...that a consolidation would really do that much for us. The same with, say, sharing a road superintendent. If you hired a road superintendent, you're going to have to have an assistant in our county and I just don't see that that's saving. You might save \$10,000, but that's...that's giving up quite a bit for \$10,000. [LB958]

SENATOR DAVIS: Thank you. [LB958]

SENATOR GLOOR: Senator Sullivan. [LB958]

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SENATOR SULLIVAN: Thank you, Senator Gloor; and thank you for your testimony. But I'm just trying to figure this out when you made the comment about ESUs...community colleges and taking advantage of the increase in value, still having access to their levy. But isn't that the same way in your situation that you've taken advantage of the extra value? [LB958]

ROBERT POST: Our mill levy has gone down. [LB958]

SENATOR SULLIVAN: Okay. [LB958]

ROBERT POST: I'll be honest with you, if anybody went back to look at the records when I first took election, the prior board to me was ultra, ultra conservative. We were having trouble paying for things. So we moved the levy up. We went up with the levy to try and get...we needed some cash reserve funds and we built our cash reserve funds in. And since we've got our financial feet back underneath us, we've been lowering our levy. [LB958]

SENATOR SULLIVAN: Thank you. [LB958]

ROBERT POST: Thank you. [LB958]

SENATOR GLOOR: Senator Schumacher. [LB958]

SENATOR SCHUMACHER: Thank you, Senator Gloor. Just briefly, how many towns are in Banner County? [LB958]

ROBERT POST: How many cows? [LB958]

SENATOR SCHUMACHER: Towns. Cows, no. (Laughter) [LB958]

ROBERT POST: I can tell you there are way more cows than there is people. And there is only one town. It's the village of Harrisburg. It's unincorporated. It has about a hundred people in it. [LB958]

SENATOR SCHUMACHER: And that's the only town. [LB958]

ROBERT POST: That's the only town. [LB958]

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SENATOR SCHUMACHER: So to the extent that this attempts to do, what I call, 75/65 in installment plans and lower ag valuations, if you're going to continue spending just at current levels, there's no place to shift that burden to, so you have to raise the levy. [LB958]

ROBERT POST: There is no place else to shift. And like I said, probably the one big piece of the puzzle is the oil. We have some oil revenue, but an oil well is appraised, just in a nutshell, is appraised by the cost of the equipment on top of the ground plus the past production. And then they take that past production and use the price that crude oil was January 1 as the factor for the entire year. And so I think you all know where crude oil is at right now. And so we're going to lose a tremendous piece of our puzzle. I've read Red Willow County will; Cheyenne County will; Kimball County will; I think there's a couple other counties down there in the corner...Red Willow, Dundy. Anybody that's got a pump jack...got pump jacks out there, they're going to take a hit. [LB958]

SENATOR SCHUMACHER: So is it fair to say the more rural the county, the less the impact that the tax shifting mechanism of 3 percent statewide is going to have? [LB958]

ROBERT POST: It is; it is. And the other thing about that is, when they were talking about reducing, last year when they talked about reducing the levies on ag land, it's not going to change much in Banner County, because it's pretty much ag land. [LB958]

SENATOR SCHUMACHER: And, roughly, in your experience, of our 93 counties, how many--very few I would guess are the extreme situation that Banner County is--but how many are far more rural and than urban? And where the shift...attempted shift back to the towns and the small activities in towns, that it really won't accomplish anything from the agricultural tax burden perspective. [LB958]

ROBERT POST: That's a hard question. Let's take Kimball for example. Kimball is a town that I'm familiar with and rather rural. I mean, their population today is probably 3,000; somewhere in that...they don't have many businesses left. They had some oil industry and that's, basically, shut down. So the shift there is probably not going to be that much different for them than it is for us. And you get away from the communities that have a town--Grand Island, North Platte, Ogallala...Ogallala might be on the extent of where the shift is going to take place. But there's not much out there. We like it that way. But when it comes to taxation, there's not much to help us out there. [LB958]

SENATOR SCHUMACHER: So if there's going to be help in those things, it won't come a shift internally from the ag sector to the little town or town, but you would have to come from the state...taking some state revenue and pouring it in. [LB958]

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ROBERT POST: Absolutely. [LB958]

SENATOR SCHUMACHER: Thank you. [LB958]

ROBERT POST: Thank you. [LB958]

SENATOR GLOOR: Senator Sullivan. [LB958]

SENATOR SULLIVAN: Thank you, Senator Gloor. To that end, if we also as a state are strapped for resources, where do you think we should expand our tax base so that we can do some of those kinds of additional support? [LB958]

ROBERT POST: I've had that question asked before, and there's only two answers: sales tax or income tax. And so we're really high on income tax. And I know that's going to upset some people. But is it really fair for property tax to pay 65 to 70 percent of the cost to educate children in Nebraska? Is that fair? [LB958]

SENATOR SULLIVAN: And to that end then, what are you willing to have the state take over responsibility for other than just giving the money? [LB958]

ROBERT POST: Other than giving... [LB958]

SENATOR SULLIVAN: Well, I mean, with more financial buy-in comes more oversight. [LB958]

ROBERT POST: Absolutely, there would be. But I think that any of the people here that are associated with K-12 or the community colleges say there's already enough insight, there's already enough oversight from the state now. That's part of what's driving their costs up. To be truthful, our high school has probably got...actually my wife did the study, and there are more teachers in that school today than there were when we graduated from high school. And when we graduated from high school, graduated about a hundred...the 9 through 12 was 150; and now I'm guessing it's well under a hundred. So we have more teachers there. And it's not all state; it's not all state-driven. There's federal mandates that require that too. [LB958]

SENATOR SULLIVAN: Thank you. [LB958]

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SENATOR GLOOR: Other questions? Thank you, Mr. Post; and thank you for your service to Nebraska through your role with NACO. [LB958]

ROBERT POST: Thank you. Thank you. [LB958]

SENATOR GLOOR: Good afternoon. [LB958]

MARLENE JOHNSON: Good afternoon, Senator and committee members. My name is Marlene Johnson, M-a-r-l-e-n-e J-o-h-n-s-o-n. I am the mayor of the city of West Point, Nebraska, and I'm immediate past-president of the League of Nebraska Municipalities. I'm also the chair of the Nebraska Expressways for Economic Development, otherwise known as NEED. This organization was formed in 2007 and it has 12 member municipalities, and we've been pushing for expressways and road improvements for all the years since 2007. I appreciate the opportunity to testify this afternoon in opposition to LB958 on behalf of the League, as well as my city. I would like to emphasize that municipalities do not benefit from any increase in ag valuations. We do not get any ag valuation taxes because we do not have ag land within our city limits. The taxes we get are within our zoning city limits, that's it. We don't get any ag. So we don't have anything...any thoughts on that or anything to do with that part of it. In addition, taxpayers and municipalities pay not only municipal taxes. We pay taxes for the county, for the schools, and for the political subdivisions. So we just also pay county taxes as far as citizens of our community are concerned. We have been at the lid and levy limit since it was enforced in 1998. At that time, we were at \$1.05 per hundred. And within two years we had to cut it back to 45 plus 5. And we have done that. And we have stayed there. We have done it with a lot of belt tightening. We have done it with not increasing our staff. We only replace staff when someone retires or if they go to another job or something like that, we will replace them. And in some instances, we don't even do that. We do with less people. So it's just a matter of the fact that we try and stay within the amount of money that is available to us. And I have to tell you that I probably have 1,500 people in the city of West Point that watch the city very well and they are very, very quick to come in to the city office and talk to my city administrator or myself and want to know how we're spending the money and why we're spending it and that do we really need what we're spending it on. And so we have to go through that process. They do not come to our city council meetings or our budget hearings because they aren't interested until they read something in the paper or something like that. Otherwise, they're not really interested. They just come whenever the spirit moves them to show up and start asking questions as to why we're doing what we're doing. And so just one of the examples--just recently, in the last three years, we replaced a ladder truck for our fire department. Our current ladder truck at that time was a 1976 model. It could no longer meet the requirements necessary to meet the codes that were necessary for a pumper truck for the fire department and so we had to replace it. And so we used our sinking funds. And we have several of those because we put money away every year into those sinking funds to replace our equipment. And as I said, that was a 1976. We have a road grader that is 20 years old. We just

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replaced a dump truck that was, I think, 25 years old. So by the time they leave us, there's not too much left of them. We use them until we can't anymore. And even with our pickups and everything else that we have, they get passed down...whoever is bottom of the totem pole gets the worst pickup truck at that time. And we buy a new one for the current place where it needs to go. So we have a lot of sinking funds--and, oh my gosh, the red light is on already--and, you know, because we do this for all of our different vehicles and for all of the things that we have to do in our city. You know, we have these sinking funds so that when the time comes that something does give out or breaks, we can...we have the money to replace it. And so the other thing I wanted to address was the voting thing. And I am definitely not against a vote of the people. We have done it numerous times. One of the examples that I want to tell you about is in a small community like the city of West Point, sometimes we have people that live on a block and there's two or three homes on the block, and we may have several of those. And they will decide that they would like to have their street paved. Well, if 51 percent of the people that live on that city block are agreeable to this, we can go ahead and do the paving. We then float the bonds and then we are repaid back every year as they pay their property taxes. Well, if I was to take something like that to a vote of the whole city of West Point, it would probably cost me \$3,000 to \$5,000 in the first place to have the election. And in the second place, somebody that lives clear on the other side of town is not the least bit interested in whether those people get their street paved or not because the street in front of their house is already paved. So you're not going to get people coming out to vote for something like that. We have another major problem right now with our... [LB958]

SENATOR GLOOR: Mayor, we really do need to... [LB958]

MARLENE JOHNSON: Oh, okay, I'm sorry. [LB958]

SENATOR GLOOR: Let me see if there are questions. Senator Brasch. [LB958]

SENATOR BRASCH: Thank you. And thank you, Mayor Johnson. [LB958]

MARLENE JOHNSON: Sure. [LB958]

SENATOR BRASCH: Was there another point you wanted to make? [LB958]

MARLENE JOHNSON: Well, I was just...the other point I was going to make was we have a levee or dike around the city of West Point. We are currently in the process of having that reaccredited because it's been a bunch of years and every year...every so often they demand that we do this. And so there is help from the NRD for the engineering part of it and they do pay half

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of that. But when it comes to the final...if there is fixing that needs to be done on this dike, and I'm sure there will be because you never get out of those things when the federal government says you have to do something, there are no grants available. And this could run into the millions of dollars for us to do this. And so, consequently, if we do not have the ability to do something like this capital project outside of the lid and levy, I don't know how we would pay for it. And so that would then throw one-quarter of our town into a flood plain. And there, again, the majority of the people that live there, probably, are low to moderate income and, probably, could not afford the flood insurance that they would need to have. And so those are all just things that enter into the running of a small community and the things that happen to us that we have no control over. Our expenses go up on a lot of things with health insurance and all of these types of things. [LB958]

SENATOR BRASCH: And, Mayor, I do appreciate and I would like to...we just funded a water task force...water, and that might be something to explore on that dike. But I do have a question for you; and you've done a tremendous job and the state has worked with you and we're trying to figure out how to do the four-lane roads. [LB958]

MARLENE JOHNSON: Um-hum. Um-hum. Right. [LB958]

SENATOR BRASCH: But we're still budgeting in 3 percent. [LB958]

MARLENE JOHNSON: Right. [LB958]

SENATOR BRASCH: We're still working within that window. What do you budget for? How much is your growth every year? I'm asking that of every mayor, basically, not just you. Is it over 3 percent? [LB958]

MARLENE JOHNSON: We're at the lid and levy, so we don't have any place to go with growth. [LB958]

SENATOR BRASCH: But your budget...okay. So you've been constant over how many years? [LB958]

MARLENE JOHNSON: Since 1996...'98, I think it is, since 1998. [LB958]

SENATOR BRASCH: And then you do have city sales tax option and some different... [LB958]

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MARLENE JOHNSON: We have a city sales tax, but if we are...if the sinking fund is taken away from us, that would...you know, because we would not have...at 3 percent, we would not have enough funds in a year's time to pay for all of these things if it was just 3 percent every year. By doing this, by being able to put some of these funds away and accumulating them, we are then able to make these purchases when the time comes. But if that opportunity is taken away from us...and you know... [LB958]

SENATOR BRASCH: And do you feel the rural community surrounding is a benefit to those living in town? [LB958]

MARLENE JOHNSON: Well, we're a whole community. And I've always said that. [LB958]

SENATOR BRASCH: Yes, of course. [LB958]

MARLENE JOHNSON: Agriculture is what makes our community good, operate. [LB958]

SENATOR BRASCH: How would you offer some tax relief for those who are...I've gotten letters, actually, saying, I feel guilty, my house taxes went down, but my neighbor who lives in the rural area, in Cuming County, went up 30, 40 percent. How would you offer to help that? [LB958]

MARLENE JOHNSON: Well, you know, I don't know the answer to that and I wish I did. I'm so...I guess I'm so zeroed in on what...keeping West Point moving and doing what is best for our community. I don't know that I've ever had my house taxes go down, so that's not something that has happened to me. But, you know, there probably...there's probably...I have not given that any thought and I apologize. [LB958]

SENATOR BRASCH: And I hope that, you know, when we had all the tornadoes in Wisner and Pilger, so many people came from everywhere to help in a crisis. And I believe that ag property taxes are in a crisis. So...and I know you have leadership role in municipalities, if we can all work together. And I believe just a 3 percent, you know, if there is a problematic area, then we'll look at it. But at this point, there's an ag crisis. And it's just down the road from... [LB958]

MARLENE JOHNSON: Well, you know, like I said, we have been at the lid and levy limit so we have been operating under those auspices. But I would hate to have all these other things, like the restricted funds and those types of things taken away from us because that is what keeps us going. You know, I mean, because we can put that money away every year and it's there for us when we need it, or if we have a catastrophe or something...because we have to have money if

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we have an emergency. You know, if something happens in West Point that's a major, major thing, we have to have money to cover that. [LB958]

SENATOR BRASCH: Thank you. I have no other questions. [LB958]

MARLENE JOHNSON: Okay. [LB958]

SENATOR BRASCH: And I know we have a room full, as the Chairman is being kind. [LB958]

SENATOR GLOOR: Senator Scheer. [LB958]

SENATOR SCHEER: Thank you, Senator Gloor. Real quickly, and I know you're here to speak in opposition to the bill, but something you said made me think of you almost as a poster child for support of the bill to the extent that when you said in the '90s, whatever year it was, you were at \$1.05. [LB958]

MARLENE JOHNSON: Right. [LB958]

SENATOR SCHEER: And then you dropped down to 45. [LB958]

MARLENE JOHNSON: Right. [LB958]

SENATOR SCHEER: I mean, literally you reduced yourself in half. I mean, I go through your community a lot. It's a great, vibrant community. [LB958]

MARLENE JOHNSON: It is. [LB958]

SENATOR SCHEER: So it didn't kill you. [LB958]

MARLENE JOHNSON: It didn't kill us, but it made us struggle. And we still struggle, let me tell you. I mean, we are very...it has caused us to be very tight fisted with every dollar that we spend. And like I said, it forced us to not ever hire new people. It forces us to use our equipment until it's 20 and 30 years old. And that's the only way that we survive that is by doing that. And, you know, otherwise...there's no way that we could have. And we just...our budget...we tighten our belts to whatever we have to do. And we spend only what we need to spend. [LB958]

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SENATOR SCHEER: Okay. [LB958]

MARLENE JOHNSON: And so, you know, it's...we'd love to have the \$1.05 back again, but it's not going to happen so we know we have to live within our means. [LB958]

SENATOR SCHEER: Okay, thank you, ma'am. Thank you, Senator Gloor. [LB958]

MARLENE JOHNSON: Sure. [LB958]

SENATOR GLOOR: Senator Schumacher. [LB958]

SENATOR SCHUMACHER: Thank you, Senator Gloor. Just a quick followup to that. [LB958]

MARLENE JOHNSON: Sure. [LB958]

SENATOR SCHUMACHER: Is that forcing to tighten your belt a bad thing? I mean, isn't...that's kind of the object of this game here, I think. [LB958]

MARLENE JOHNSON: Well, you know, tightening the belt is fine. It becomes very difficult because your citizens want all these services. And we still have to function with our police department, our fire department, our rescue department. And so sometimes tightening the belt gets to be a little tough when you...you know, when you can't do everything that you need to do in a particular department, you know, when you have to, maybe, not do improvements in the park when they are needed, sadly. You know, things like that...you know, and so forth. I mean, you can live with it, but it's very tough sometimes and you have to say no to some things that would really be great for our community. [LB958]

SENATOR SCHUMACHER: Thank you. [LB958]

MARLENE JOHNSON: You're welcome. [LB958]

SENATOR GLOOR: Thank you, Mayor Johnson. [LB958]

MARLENE JOHNSON: Thank you. [LB958]

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SENATOR GLOOR: Are there still folks here who have come from a long distance away who haven't gotten up there yet? Okay, I'm assuming we're all using the same distance thing. I know there's somebody from Columbus. He'll drive you home later. [LB958]

JAMES TEMPLAR: I am from Gering, so I think it is quite a ways away. [LB958]

SENATOR GLOOR: That works. I lived in Scottsbluff. I know it's a ways away. [LB958]

JAMES TEMPLAR: Okay. [LB958]

SENATOR GLOOR: Different time zone as I recall. [LB958]

JAMES TEMPLAR: Interesting. Very good. [LB958]

SENATOR GLOOR: Welcome. [LB958]

JAMES TEMPLAR: (Exhibit 15) Thank you very much, Senator Gloor and the Revenue Committee, for allowing me to speak today. I'm going to give you a little bit different perspective of...I'm sorry, James Templar, J-a-m-e-s T-e-m-p-l-a-r, and I'm the fire chief at the Gering Valley Rural District, as well as the city of Gering, plus I serve as president of the Scotts Bluff County Mutual Finance Organization, which I'm going to try to give some of that stuff to you, somewhat of a little bit different perspective of what we're doing. And please, by all means, ask me a question about a carrot when I get done because I don't want to take my time to do that. Okay? The big thing that I'm going to talk about is the bonded indebtedness. We have used all of your financial tools that have been available for our rural fire district since 1998 when all that came into play. We've utilized the bond. We've utilized the levy exclusion because of the interlocal by doing the mutual finance. So we feel that's very important that we continue to be able to do that. And we have been able to exceed that 3.5 percent, but I'll give you a caveat that starts with...for us to start that MFO, we had to actually reduce our levy limit to get into the MFO to make it a common levy that everybody could do which is required that everybody has to have a common levy countywide. So Gering Valley reduced ours, so that did help us with that reduction because of the MFO money that we got because of that. So we definitely have use all those tools. What I want to do is use it as an analogy, I heard before already, is that three-legged stool. And that is certainly what all fire districts, basically, are representing the fire departments, so I want to make sure I'm talking about the fire department because this is what is mostly important about is those three legs is the volunteers is the most critical part of that leg of the three-legged stool, because without them we cannot survive. We do not have the funds to operate or anything else. So we have to make sure we take care of that and make sure those are done. The second leg is

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community support, and certainly that is our responsibility that we have to provide a service to that community and make sure they are acceptable to us, which in turn usually takes care of the financial part of it, because if we're doing a good job then they generally don't have an issue with the financial support. So because it is to tenable with the volunteers that that financial support is what I want to talk about is if that part is more difficult, that does bring into play that volunteer group. Because we are responsible for making sure that we get the proper equipment for those people. And if that financial portion becomes less steady as what it's been or more difficult, you have that danger of losing those volunteers if that financial support goes away, which in turn you lose the community support. So we want that to continue. The issue of the bonds, certainly we have used that. The reason I think it's critical is because who's going to be out there asking the public for that bond except for the volunteers. They're already taxed on all their time that they can do. We've given up...we ran over 700 calls last night (sic--year) in our fire district. For that time to go out there and try to educate the public about bond, I think our rural boards are very, very responsible people and have always done very good with the bonding. The next thing is the town hall meeting. Thank you very much last year by taking care of LB325 that took that town hall meeting portion away of having to fund the fire districts. Scotts Bluff County was one of them that was included in that bill. We have not had to use that (inaudible). But the town hall person of that is very, very important to fire districts. Back in 2012, everybody remembers all the mega fires across Nebraska, we sent a strike force team of engines from Scotts Bluff County up to the Niobrara River Valley. And of course when we got there, the first thing we needed was fuel. And that's part of what became a problem for the Ainsworth...I think it's the Ainsworth Fire District. They actually had to have a town hall meeting to be able to pay the fuel bill for that fire. It was over \$100,000. That opened up all of our eyes in our districts about that. So I just want to make sure that we aren't using that tool to get away from that. So with that, thank you very much. I see my red light is on. I will try to answer any questions you may have. [LB958]

SENATOR GLOOR: The senator that you can thank specifically is Senator Davis at the end. [LB958]

JAMES TEMPLAR: You've been a very good supporter of the fire service, thank you very much for everything you've done. [LB958]

SENATOR GLOOR: So if you can do so in a short period of time, I'm supposed to ask you about a carrot. [LB958]

JAMES TEMPLAR: Okay. You asked about what we can do to offer. That has been done back in 1998 when they did the Mutual Finance Organization. Those dollars come from, I believe, it's fire insurance premiums that are paid in the state of Nebraska. That was put into play to help offset when they did the lid limits. And we did do that. We went through...I went through the

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process and I've been with the fire service for 36 years, so I've been through all these financial deals. It was difficult to convince everybody that this was a common thing to do to get that common levy. But the reward for doing that was that we applied for those grant dollars. And you guys last year, the Legislature, funded that back up to the higher limit so that the entities are already in there. If there is more money, I think you could get other districts to come in that would take some of that balance away from property tax and using another source of revenue. That's what I'm...you know, was my carrot. You asked where you could get some more money. That is an avenue that you may be able to use. It does force people to do a common levy, but it is certainly is usable to help reduce property tax. Senator Wickersham, when he did that, that's what he wanted to do was try to help reduce the property tax and make it an even levy across the board. I think it worked. [LB958]

SENATOR GLOOR: Other questions for Mr. Templar? Senator Davis. [LB958]

SENATOR DAVIS: Thank you, Senator Gloor. Welcome, glad you're here today. You said 700 fire calls last year. [LB958]

JAMES TEMPLAR: EMS and fire, everything, emergency response calls. [LB958]

SENATOR DAVIS: From Scotts Bluff County. [LB958]

JAMES TEMPLAR: From Gering's fire district. [LB958]

SENATOR DAVIS: From Gering's fire district. [LB958]

JAMES TEMPLAR: Just our district, the city of Gering, the Gering Valley Rural District. There's 13 entities with cities and districts in Scotts Bluff County. They're all part of the MFO. [LB958]

SENATOR DAVIS: And you were outside the levy limit for a while and had to go to the town hall meetings. [LB958]

JAMES TEMPLAR: No, we did not. But I know that they did do that. Just this year, we're in that tax levied county is high enough that that bill, LB325, allowed us, if we need to, if they chose to not fund us, we could do our own funding. So I guess next year we have the ability to do our own funding. At this point we have no reason to. They have not said they were not going to fund us. We're at a common levy of 4 mill. And that is part of the other thing is when you say about the...what we've done; that's very conservative. And most fire districts, I think, across the state

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are very conservative at 4 mills and even less when we have the authority to do 10. So I mean, that's what's hard when you say you're going to restrict it, we've already been at that conservative part and how do we keep up with that based on that? [LB958]

SENATOR DAVIS: I was going to ask you about the cost of the election because I know in some counties when that was done, it was about \$4,000 to \$5,000 every time they had an election. [LB958]

JAMES TEMPLAR: That's the election. That's what I...and even with the election, like talking about the volunteers having to work it, but the cost is defrayed by that rural district. And it's just taking money away. And again, I understand, I'm not opposed to the public vote. I would not be afraid of that. I think I would have enough support from the public. But it is the time frame and the expense to do that when...maybe we could look that. That's all I'm asking you is to look at the fire districts, maybe push them a little bit further down. We're not at a max, most of them. Give us some of these tools, maybe they're there, that we would not have to do the bonding, you know, actual election. I think that we've been conservative enough and I think we've earned that respect, I guess, to...and I don't mean any else hasn't. But we've been very conservative and would like to have those options not have to put more pressure on the volunteers is what I'm after, I guess, so. [LB958]

SENATOR GLOOR: Okay. Senator Schumacher. [LB958]

SENATOR SCHUMACHER: Thank you, Senator Gloor. We've heard it mentioned several times today the cost of the election. What if these were just incorporated into the regular primary and general elections so that that was all taken care of. [LB958]

JAMES TEMPLAR: I guess that's true, but I'm not sure, but I've been told that there is some fees to that. I do not know. We've not had to do one. Never had to do that part (inaudible) that. [LB958]

SENATOR SCHUMACHER: Thank you. [LB958]

JAMES TEMPLAR: But at least from what I've been told that there is some expense to you, to the election board, if you have something on the ballot. I don't know if that's true or not. [LB958]

SENATOR SCHUMACHER: Thank you. [LB958]

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SENATOR GLOOR: Thank you, Mr. Templar. [LB958]

JAMES TEMPLAR: Thank you very much. [LB958]

LANCE HEDQUIST: (Exhibit 16) Senator Gloor, members of the Revenue Committee, I'm Lance, L-a-n-c-e Hedquist, H-e-d-q-u-i-s-t, city administrator of the city of South Sioux City, Nebraska. I'm here on behalf of the city of South Sioux City to oppose this bill for three reasons that are outlined in the letter...or statement that you're receiving here today. Number one, our city has been very frugal in terms of taxes. Within our community, I've given you our ten-year tax levy. Within the city of South Sioux City, you'll note that in the last five years our levy has dropped within our community. And that's our intention of the future is to keep that rate down. In addition, we're one of the few cities that is property tax debt free, even with our rates going down, we are now property tax debt free in our community. Second of all, we are very strong supporters of the Intergovernmental Cooperation Act and we have many agreements with our fellow governmental bodies. We have a joint street sweeper. We buy salt jointly. We have an interlocal agreement for water systems. We have a interlocal agreement for sewer systems. We do joint building permitting within our city. We have public safety agreements for the fire department. We have a joint law enforcement center within our community. And we believe that these intergovernmental projects should be continued to be emphasized as a positive step for the state of Nebraska and local governments. In fact, we're going to build a road with the school district, with the county, with the private sector, and the city all contributing funds. Under the bill as proposed, we would have to have three separate elections taking place, three separate times where the public would have to vote as to whether we could do this or not. The city would have to have one. The county would have to have one. And the school district would have to have one under the language as I read the current legislation. And the overall project is, obviously, very beneficial to all the parties that are involved. The other place that we have some concerns on is the fluctuation of the funds that we pay back in the Nebraska Advantage Act. We are very strong supporters of the Nebraska Advantage Act. I think you've done an excellent job in terms of that bill. I think it has attracted lots of new investment into the state of Nebraska, into South Sioux City. We have paid back over \$3 million back to the businesses that have come into the area under those rebates. One year I think we had \$12,000 that was paid back to the state; the next year we had \$700,000 that was paid back to the state. And our concern is that with that wide fluctuation you have, what becomes your base and what becomes what you're able to levy or request in the future. I will also add, when we talked about a 3 percent issue, back in the '80s, I'm an old guy, back in the '80s when we had the legislation that set caps, those became the targets. They didn't say you're not going to...the language said you wouldn't exceed 3 percent if that was the case. They became the targets. Everybody wanted to go to 3 percent and everybody worried about, well, we're okay this year, but what's going to happen next year. So you got to be a little careful when you establish those caps because, in fact, they can kind of reverse and actually raise taxes and not lower them. Thank you, Mr. Chairman. [LB958]

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SENATOR GLOOR: Thank you, Mr. Hedquist. Senator Brasch. [LB958]

SENATOR BRASCH: Thank you, Chairman Gloor. And good to see you, Mr. Hedquist, again. [LB958]

LANCE HEDQUIST: My pleasure. [LB958]

SENATOR BRASCH: You raise an interesting question. And I applaud you for everything you've been able to do, how you maintain good fiscal practice. And did you say your levies went down? [LB958]

LANCE HEDQUIST: Yes, it will show that last sheet the levy went down. [LB958]

SENATOR BRASCH: And so what did revenue do? Did you have revenue increase perhaps? Where's the money coming from? [LB958]

LANCE HEDQUIST: Well, we do have sales tax. [LB958]

SENATOR BRASCH: Okay. All right. [LB958]

LANCE HEDQUIST: And probably one of the best things that happened to me in my life when I went to my first week of the job, they came in and told me we did not have enough money for payroll. That became a little bit of a concern to me. So I knew the importance of having funds that are set aside for the city so you have money in case of emergencies. And we also have the sales tax revenue that has gone up within the community. And we also...we are on our budget about \$60 million for our small town, but about half of that is electric sales and we got water and sewer sales in the city, so we have other revenue sources than what the...what strictly is the property tax funds within the community. But sales tax has definitely gone up in our particular area. [LB958]

SENATOR BRASCH: So you do rely on sales tax, excuse me. [LB958]

LANCE HEDQUIST: Absolutely. [LB958]

SENATOR BRASCH: That's what...and then...now back to the state, is...you know, we're making a pledge to taxpayers that we're...we want to stay within 3 percent. We know a lot of families stay within 3 percent. We're trying to bring those taxes down. What percentage do you increase

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from year to year? Are you within that? It sounds like a lot of people are, and that's not a...
[LB958]

LANCE HEDQUIST: Yes, we would be within that...well below the 3 percent. [LB958]

SENATOR BRASCH: Well below? [LB958]

LANCE HEDQUIST: And that the...we've had the benefit of having good economic growth and that will continue within our community. But what really needs to happen is there really has to be a policy established of what is the sense of direction and what is it you want to do over all for the state and for the citizens on the taxation issue? If you want to say that you want to balance that out, you don't do a Draconian thing where you change everything over night. You take steps to move in a sense of direction that is in the best interest of all the taxpayers in the state.
[LB958]

SENATOR BRASCH: And this is a step. [LB958]

LANCE HEDQUIST: For instance, take 1 percent to apply to go to the governmental bodies to reduce property taxes or some process like that. But you need to know where you're going.
[LB958]

SENATOR BRASCH: Now, a couple of mayors had said they weren't really in tune with the rural area surrounding them. Are you aware of what's happening on ag land value around?
[LB958]

LANCE HEDQUIST: Absolutely. To the city, there's probably less than half a percent of our valuation comes from ag, so it has very little impact on the city. [LB958]

SENATOR BRASCH: Very little impact on you. [LB958]

LANCE HEDQUIST: I can guarantee you, when you talk to the agricultural people, that's a major concern, because they have taken hefty increases, and they certainly talk about that. And it's certainly a concern for all of Nebraska. [LB958]

SENATOR BRASCH: And you look at it like other mayors, as one community, so that...are you willing to help lower those by...but you're sitting here saying, we live within 3 percent, but I don't want to do this. [LB958]

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LANCE HEDQUIST: I'm...if you're talking about the ag valuation, I proposed last year and talked to our senator about saying let's just freeze the ag valuation so they don't go up in the future. Because they've had such a huge increase over time that in recent times that that's something that needs to be addressed. We can't ignore that. And so I think there does need to be something done about that. [LB958]

SENATOR BRASCH: And that is why this legislation has been brought forward by Senator Gloor with a counterpart with Senator Sullivan. So, again, I know you're doing a great job; appreciate you coming here. And we'll take this into consideration. I've no other questions. [LB958]

LANCE HEDQUIST: Thank you, Senator. [LB958]

SENATOR GLOOR: Seeing no other questions, thank you, Mr. Hedquist. [LB958]

LANCE HEDQUIST: You bet. [LB958]

SENATOR GLOOR: I'm glad you finally got up here. [LB958]

RYAN PURDY: (Exhibit 17) I got up here. Good afternoon, Senator Gloor. What she's passing around is a letter to you from Tom Perkins, who is a long-term community college trustee from Western Nebraska Community College. My name is Ryan Purdy, R-y-a-n P-u-r-d-y. I am the president of Mid-Plains Community College in west-central Nebraska. I have served in that capacity for four years and was the CFO for the ten years previous to that. A couple of things I'd like to draw your attention to is in statute right now, 85-1501.01 it says: The Legislature recognizes the need for and importance of a strong partnership with the community colleges to assure the continued economic growth of the state. (Statute) 85-1502 says, "It is the intent of the Legislature that a clear distinction between area governance and statewide coordination for the community college areas be recognized and that such coordination is appropriate in order to provide the most cost-effective programs for residents of each community college area." Section (3) further says: Nothing in this section shall be construed to require to provide for state control of operations of any community college area or to abridge the governance ability, rights, and responsibilities of any board. I believe LB958 is in conflict with some of those statutes. LB958 does limit the local elected 11-member community college board from making significant local budget decisions regarding property taxes, specifically by ignoring the historical decisions of the local government entity by removing the current lid computation formula and moving to a fixed 3 percent of the previous restricted funds as unused restricted funds to be carried forward for future use. Enrollment growth in community colleges has historically occurred during economic recessions. That's when we need the greatest amount of flexibility to adjust our operations. We

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need to retain the existing lid computation formula to be responsive to our service area needs and those decisions made by our local 11-member elected boards. The current lid computation formula is a check and balance. And most community colleges in the state, right now, even couldn't get to their levy limit of 11.25 cents as out there in statute. The current lid computation for community colleges is 2.5 percent plus growth in excess of 2.5 percent. And then, obviously, the local board can take an additional 1 percent if they so choose with a 75 percent of the vote, which our board has done in the 14 budget hearings that I have sat in. I'm not going to repeat most of the other stuff, because I think it's been repeated before, but I would take any questions at this point. [LB958]

SENATOR GLOOR: Thank you for your consideration on the time. I would ask you, when you've had your budget hearings, has the public shown up? Or is it...you know... [LB958]

RYAN PURDY: Fourteen budget hearings, I've been at 165 of the last 166 monthly board meetings of Mid-Plains and I could count the number of times a public person has spoken in opposition of property taxes probably on half of one hand. And I would say Senator Groene was...when he was a public citizen, obviously, still is, but... [LB958]

SENATOR GLOOR: Had his concerns. [LB958]

RYAN PURDY: ...would be there two of those three times. [LB958]

SENATOR GLOOR: Do you get media coverage? Do the media attend? [LB958]

RYAN PURDY: We do get media coverage...yep, we do. We get the local...the NBC and now 10/11 affiliate in North Platte and also the local papers in McCook and North Platte. [LB958]

SENATOR GLOOR: Okay. Other questions? Senator Davis. [LB958]

SENATOR DAVIS: Thank you, Mr. Purdy, good to see you. [LB958]

RYAN PURDY: Nice to see you. [LB958]

SENATOR DAVIS: You heard my question of Mr. Post, I'm assuming, about community college. Would you like to respond to that since you're the leader of one of them. [LB958]

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RYAN PURDY: Obviously, we think the additional state aid to community colleges would, to offset property taxes, would be our preference. I know that two of the six of us have relatively little unused restrictive funds authority right now. Two of us have, I would say, a reasonable amount. Mid-Plains has about \$2.7 million, which represents less than 10 percent total of our restricted funds. So looking at this bill, LB...or the...for the first year beginning after 1-1-16 before 6-30, that to me incentivizes the community colleges and other local entities to maximize their levies for next year, up to the 3 percent. Because if they don't use that to restricted funds next year, they'll lose it in the following years. But Mid-Plains Community College, over the last 9 years, has increased state aid by 5.5 percent; state aid increase which is about a .7 percent increase annually. When the latest legislation changed with 11.25-cent levy and they gave us 2-cent authority for capital, we had been at 1 cent. Our board locally requested that we phase it in. So we have phased in our capital levy up to 1.65 cents of the 2-cent max. While doing that, we've also dropped the levy each of the last year...each of the last seven years from the previous year. [LB958]

SENATOR GLOOR: So your state aid has gone up by .7 percent. [LB958]

RYAN PURDY: Point seven. We were about \$8.2 million in state aid for Mid-Plains in 2008-09. We're about at \$8.8 million in '15-16. [LB958]

SENATOR DAVIS: And what's happened to the property tax piece? [LB958]

RYAN PURDY: Property tax have increased significantly, yeah. [LB958]

SENATOR DAVIS: Can you tell us how... [LB958]

RYAN PURDY: I don't have it right in front of me, but our levy went down from when they were 8.9 cents, and we're at, currently, 7.8 (cents) with the second lowest in the state of Nebraska. But, yeah, valuations have went up significantly to offset the state aid. [LB958]

SENATOR DAVIS: So what is your growth per year then? [LB958]

RYAN PURDY: Our general fund...to, again, take out the capital piece, our general fund budget has been right at about 4 percent the last three years. And we have not seen an enrollment decline at Mid-Plains recently, where actually the last four years have been our highest enrollment. So we're just a little over 1,900 FT. [LB958]

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SENATOR DAVIS: And then the last question is, can you share with us how much is from tuition...how much of your...? [LB958]

RYAN PURDY: We're...general fund again, we're about 35 percent state aid, 45 percent property taxes, and 20 percent tuition fees. We're right in the middle of the array when you look at Nebraska community colleges across the state, tuition has been \$90 to \$110 per credit hour and we're projecting to be right at \$99 for this next year. [LB958]

SENATOR DAVIS: So is that a figure that's fairly consistent in terms...I mean, your state aid, obviously, dropped and so... [LB958]

RYAN PURDY: Right. It's all over the map. [LB958]

SENATOR DAVIS: Tuition stays pretty much the same, so the property tax has to be... [LB958]

RYAN PURDY: Yeah, I would say tuition ranges, and I know have some people behind me that you can ask this question, they're going to testify in a little bit, tuition ranges between 18 to 30 percent of general fund budgets. And I would say the property taxes range is probably from the low 30s to the high 50s. And then, obviously, to fill in the blank with the state aid piece. [LB958]

SENATOR DAVIS: Thank you. [LB958]

SENATOR GLOOR: Senator Schumacher. [LB958]

SENATOR SCHUMACHER: Thank you, Senator Gloor. Quickly, if your ag land values were half of what they are now, what impact would that have on your operation? [LB958]

RYAN PURDY: Well, I'm planning to build a budget based on a 3 percent increase in total valuation across our 18-county service area. [LB958]

SENATOR SCHUMACHER: Just pretend that your ag land values were half... [LB958]

RYAN PURDY: Yep. [LB958]

SENATOR SCHUMACHER: ...of what they're at now. [LB958]

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RYAN PURDY: It will require reductions in force or significant increases in tuition. [LB958]

SENATOR SCHUMACHER: So, basically, since the 1970s, which I think the community colleges kind of kicked in gear somewhere in there, the average ag land increase has been just roughly, very roughly, about 7 percent instead of the 3 percent. So had that be the case, you would have half the valuation. So to operate you would have been...at your current level, you would have to shift considerable amount of taxation. [LB958]

RYAN PURDY: Probably \$5 million to \$7 million, yeah. [LB958]

SENATOR SCHUMACHER: Thank you. [LB958]

SENATOR GLOOR: Any other questions? Thank you. [LB958]

RYAN PURDY: Thank you. [LB958]

SENATOR GLOOR: Next opponent. Good afternoon. [LB958]

PAUL ILLICH: Good afternoon, Senator Gloor and members of the Revenue Committee. I am Paul Illich, P-a-u-l I-l-l-i-c-h. I'm the president of Southeast Community College. What I want to do is just kind of talk a little bit about a few of the things that Ryan didn't get to. One of the things that's really unique about community colleges, we have...as you know, we have three sources of revenue and Ryan was just talking about that. But the local tax levy is absolutely what keeps our tuition very affordable, and it's between \$90 and \$110 across the six community colleges. I think one of the incredible opportunities right now, in Nebraska there are two major pressing issues. And one of them is, we really need to increase our qualified work force in career and technical areas. Community colleges provide affordable access to high quality training in welding, manufacturing, agriculture, the health sciences, automotive technology, energy generation, and many other critical areas. The other major issue facing Nebraska, it's very clear, is affordability to higher education. In community colleges, with their academic transfer mission, absolutely represent a great opportunity to do that. So we partner with the university to articulate those courses so we can lower that average loan debt. Now one of the things we've heard many...quite a bit this afternoon is, we've talked about what would happen if you had a situation where you had a much lower ability to rely on property tax. And what I can tell you is, we've actually had an opportunity to...I can tell you that we have sort of done that. If you look at Southeast Community College, we've been very different than the other colleges. We had our tax levy all the way down to 4.98 cents when I arrived here. The last ten years, four of those years we had no levy associated with capital. So what does that mean? Well, we had very, very low

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taxes, but that's been at a cost. In fact, we had our...well, here's how that's been...here's the cost of that. We have not been modernizing and expanding like the other colleges. As a result, we have two-year waiting lists for our nursing and welding programs. We have agricultural facilities out at Beatrice that were designed for 60 students; we currently have 250 students. In fact, when Beatrice was built in the 1960s out of wood construction, it was meant to be designed for about 20 years and we're still using that. We converted...most of those were dorms and we converted those into classroom facilities. So we're changing that. So this is not a negative, we're seeing it as an opportunity. We are expanding out in six different areas: Nebraska City, York, Plattsmouth, Falls City, Hebron, and Wahoo. We did a facilities master plan. We're looking at modernizing all of our facilities. Many of the other colleges, as I mentioned, they've been doing that, they've been preparing for manufacturing for other advanced technologies. So I really see this as a time to invest and not partially divest. What LB958 would do, it would actually...SEC would lose \$30 million in unused funds. So what I just described is why we had all those unused funds; we hadn't been modernizing. And we have one simple mission and that's to provide open access to higher education to meet the employer and student needs. So there is no doubt that that \$30 million that we were definitely planning to use, we would lose that with this bill. So I see this as an opportunity to invest and not partially divest. And I'll take any questions. [LB958]

SENATOR GLOOR: Thank you, Mr. Illich. Yes, Senator Scheer. [LB958]

SENATOR SCHEER: Thank you, Senator Gloor. You talk about losing the \$30 million, but when you utilize that \$30 million, your mill levy is going to go up substantially, will it not? [LB958]

PAUL ILLICH: The what levy? [LB958]

SENATOR SCHEER: If you're using your unused budget authority. [LB958]

PAUL ILLICH: Exactly. [LB958]

SENATOR SCHEER: If you use that \$30 million worth of unused authority, will not your mill levy go up substantially? [LB958]

PAUL ILLICH: Well, absolutely. I mean, that's what it's there for. We're now... [LB958]

SENATOR SCHEER: Well, but I guess my point would be, the taxpayer...you've pointed how you've done such a good job in the last years, but it was like almost gotcha. We go along, we go

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along, we haven't done anything and then all of a sudden we've saved it all up so, boom, it's going to skyrocket. [LB958]

PAUL ILLICH: Right. Right. [LB958]

SENATOR SCHEER: I mean, I think that's what we're trying to get away from. [LB958]

PAUL ILLICH: Well, it's an excellent point. You used the word, done a good job. I would use...I would say that we hadn't fully invested. In fact, I will tell you, we had a... [LB958]

SENATOR SCHEER: I don't want to get into semantics. [LB958]

PAUL ILLICH: Sure, sure. [LB958]

SENATOR SCHEER: But the fact of the matter is, you did stockpile your unused authority. And now you're saying that you have this use for it. [LB958]

PAUL ILLICH: Absolutely. [LB958]

SENATOR SCHEER: But, you know, it compounds what we've heard over the last three or four years that I've been down here, that property taxes are way too high. And Southeast has the same amount of...I don't about the same amount, but you have a lot of rural area that you're taxing as well, so it will actually going to further complicate the problem that already exists. Would that not be the case? [LB958]

PAUL ILLICH: Right. We would be capped at 7.57 cents, functionally. And one of the challenges we had when I first came here, we had no presence outside the three county areas. And so, in fact, I had a lot of input and that's what led us to putting six learning centers, because they felt like...this is rural areas. SCC and some of the other colleges are unique because we have both rural and metropolitan areas. So what happened was the folks out in the rural area said, we pay a tax and we don't mind paying additional taxes, but we want to see something for it. We want to have access. We don't want to drive 100 miles to Lincoln, we want to have access right here. So that's why we're putting in the six learning centers. So you're right, in a sense. Absolutely, there's no doubt that we would be going up in the taxes if we needed to make that investment. But it's not...the taxpayer vested us... [LB958]

SENATOR SCHEER: But you just said you did need to make it, so it's not (inaudible). [LB958]

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PAUL ILLICH: Right, exactly. We do. There's no doubt about it. And so it's...we...I see this as a very positive opportunity. The taxpayer invests in us. We absolutely turn around and invest in them to find this excess (inaudible). [LB958]

SENATOR SCHEER: I'm not against community colleges... [LB958]

PAUL ILLICH: Sure. [LB958]

SENATOR SCHEER: It's just that it almost epitomizes the problem that we've got because you...the stockpiling, although you were frugal or whatever terminology you want to use during that period of time, but the stockpile and the big bullet at one shot, all of a sudden you throw a bunch of facilities up, therein lies and compounds the problem that already exists. I mean, you are maybe part of the solution that it didn't get worse earlier. [LB958]

PAUL ILLICH: Right. [LB958]

SENATOR SCHEER: But now you're going to be part of the problem that won't go down. [LB958]

PAUL ILLICH: Yeah. I really see it as a solution. I see it as a...we heard comments about, well, how do lower taxes? We heard the mayor make some excellent remarks about investing in growth. Well, if we really, truly commit to that, then what you absolutely could see is--it sounds counterintuitive--but as you build a very affordable higher education opportunity as you invest in yourself, what happens? Businesses, individuals. We almost charge the same in-state as we do out of state. Individuals want to come into Nebraska. Businesses come into Nebraska. You create volume. Your tax levy starts to go down. [LB958]

SENATOR SCHEER: Thank you, Senator. [LB958]

SENATOR GLOOR: Thank you, Mr. Illich. Oh, I'm sorry. Senator Brasch. [LB958]

SENATOR BRASCH: Thank you. Sorry. We were both (coughing) at the same time; excuse us. I want to thank you for coming here. And the community colleges do play an important role. Do they get state aid? [LB958]

PAUL ILLICH: Absolutely. [LB958]

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SENATOR BRASCH: And how much do you receive from state aid? [LB958]

PAUL ILLICH: I think we're at about 30...I can tell you that. We are at...right now, we're at 38 percent of state aid. [LB958]

SENATOR BRASCH: And where do you...because...where do you think state aid comes from? Where is that money derived from, basically? [LB958]

PAUL ILLICH: It's the taxpayer. [LB958]

SENATOR BRASCH: Taxpayers, yes. [LB958]

PAUL ILLICH: Correct. [LB958]

SENATOR BRASCH: So...and this is where taxpayers are asking us, you know, from every nook and cranny and corner of the state, please lower taxes. We've been working on this. Ag land has been very heavily hit...extremely hit over the last five years, at least. And you have revenue from somewhere, correct? So there is revenue that is coming in. So if you're not...if you're lowering your levy, your revenues, your funds are coming from where? Where's the money? Tuition? [LB958]

PAUL ILLICH: Yeah, tuition. [LB958]

SENATOR BRASCH: And state aid. And so why are you objecting to this? Why are you? I don't understand why the community colleges are stepping up? You have tuition. You're getting state aid. What more do you... [LB958]

PAUL ILLICH: Right. Well... [LB958]

SENATOR BRASCH: What do you say to the person who wants their taxes lowered? [LB958]

PAUL ILLICH: Yeah. What I would say is one of the...the reason why that person might tell you that, well, my son or daughter went through SCC and then transferred over to UNL or my son or daughter picked up a degree in welding and they're now making X amount of dollars. The reason why they're able to say that is because of the local tax levy. They're able to say that because we only charge \$90. The incredible amount of costs associated with our equipment, we absolutely rely on that taxpayer to help us. And they get the direct benefit of their daughters and then, in

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turn, the daughters of their daughters and so forth. It's a tremendous investment. You know, we... [LB958]

SENATOR BRASCH: And you're not seeing any tax relief in sight for the taxpayer? [LB958]

PAUL ILLICH: Well, you know, really...you do have a very...I can understand the sensitivities because I had the same sort of...when I arrived here I can tell you...I've been here about a year now. And I had tremendous input or feedback--maybe even more...might use a different word--from the rural areas of my service area. And they made it very clear that they were paying taxes, but they didn't feel like they were getting something for it. So they were saying, we don't mind having a tax increase if it's really not seen as an increase but as an investment in something that we have access to. So...and I think what I was describing with LB958 and what Senator Scheer was mentioning was that, in our case, it would functionally cap us at 7.57 (percent) and cap the others where they're at. And some of them have been modernizing, investing, they'd be capped at higher levels. And so the question you'd have to ask yourself is, does that mean the community colleges, the way they're currently positioned, are exactly where they're supposed to be positioned to meet the...to help grow the economy, to help expand the work force? Because I can tell you, I hear so much. You look at our unemployment rate and it seems like this is a time to invest in education in community colleges. [LB958]

SENATOR BRASCH: But investing is also stretching the person who is putting in the sweat equity to painful areas of...you know, it's just moving out. And I'm just curious, where can we start moving things backwards or at least hold them. And, I mean, that's where I'm hoping that a 3 percent...everything that's outlined here would not be the end of the world to anyone, but perhaps one small step in some tax relief. [LB958]

PAUL ILLICH: Yeah. I do think that one part where the unrestricted authority would be removed would absolutely prevent colleges such as Southeast and some of the other community colleges to really meet the needs...employers' and student needs. I guess my response to that would be, we do have an absolute responsibility to make sure we are doing what we're supposed to be doing in higher education. That's being very responsible with our resources and making sure we create opportunities for individuals to have better lives and wonderful careers. [LB958]

SENATOR BRASCH: Very good. Thank you. [LB958]

SENATOR GLOOR: Senator Davis. [LB958]

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SENATOR DAVIS: Thank you, Senator Gloor. And just a few questions for you. You've been here about a year, you said. [LB958]

PAUL ILLICH: About a year and a half. [LB958]

SENATOR DAVIS: Where were you prior to that? [LB958]

PAUL ILLICH: Waco, Texas. [LB958]

SENATOR DAVIS: So can you elaborate on how community colleges are funded in Texas? [LB958]

PAUL ILLICH: Thank you for that question. They're actually funded exactly the same as they are here in Nebraska. And that's one of the things that attracted me to Nebraska. And I do want to make sure everyone here is very clear that all the community college presidents recognize what an amazing investment that the Legislature has made in them. But to answer your question, there's 50 districts in Texas. And it's the same--hold on to your seats--it's the same three-source model, but the tax levy limit there is \$1 for \$100 valuation; 50 cents on general, 50 cents on capital. What's really interesting, it was quite complex. So there's 50 districts. There's a district in Collin County, near Dallas. I believe they're still charging \$38 per semester credit hour. It's basically free. And the reason for that is because in Texas, you've got huge amounts of valuations associated with the corporations that are there. So other than that, it's...I mean, the limits are different. But I'll tell you, even at \$1, the school that I was at, we kept it down to...it was right around 15 cents total. And so I am very sensitive...I'm very familiar with that model, very sensitive to the importance of keeping that balance. [LB958]

SENATOR DAVIS: You heard me ask Mr. Purdy about the percentage of funding, and is it similar at Southeast? [LB958]

PAUL ILLICH: It's actually pretty similar. We're...Southeast is 38 percent state aid, 38 percent property taxes, and 31 percent tuition. We're a little bit higher than the others on tuition. [LB958]

SENATOR DAVIS: Thirty-one percent tuition? [LB958]

PAUL ILLICH: Yeah, we're a little bit higher. [LB958]

SENATOR DAVIS: So you're substantially higher than the others. [LB958]

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PAUL ILLICH: Yeah. [LB958]

SENATOR DAVIS: And the formula that is in place in Nebraska, are you familiar with how that works? [LB958]

PAUL ILLICH: Yes. [LB958]

SENATOR DAVIS: Can you give the committee a 30,000-foot glance at that? [LB958]

PAUL ILLICH: Sure. Yeah, the current formula, we've actually...the CEOs have been working on a new formula model. But the current model, I believe the bulk of the money--I don't have the numbers in front of me--but the bulk of the money is funded based on a series of ratios that were...those ratios were based on a previous model that funded schools for what they call reimbursable educational units, which basically is a weighted, what I call weighted contact hour or semester hour. So, for example, if you're a student taking a welding...you're in a welding program, you would get two points earned, whereas if you were in health sciences you might get 1.5. That's called light technology. And then the arts and sciences would be 1 point. And so it's weighted. So primarily, it's based on that. And then new monies that were added after that point are based on a slightly different model. I don't have the percentages right in my head, but it's...I want to say 25 percent; equalized across those six colleges and I think it's 35 percent for FTE and then there's another whatever that percentage difference for Rees. So that's the current model. We've been exploring alternative models designed to address the unique needs...because, as you know, western Nebraska and some of the other places are very different and have less opportunities to access revenue in the same way other colleges do. [LB958]

SENATOR DAVIS: Thank you. [LB958]

SENATOR GLOOR: (Exhibits 18-30) Thank you for your testimony. While the next testifier comes up, I'm going to read into the record...go ahead and have a seat. I'm going to read into the record some of the letters that we have that the members will have in front of them: John Berge, North Platte Natural Resources District; James Egr, Nebraska State (Volunteer) Firefighters Association; Katie Pitts, Nebraska Appleseed; Mike Lucas, STANCE; Brad Wells, Central City, Nebraska; John Winkler, Papio-Missouri Natural Resources District; Tom McBride, Private Citizens as Taxpayers; Jami Jo Thompson, Norfolk Public Schools; Debra Finn, Wayne County Clerk; Deb Cottier, Nebraska Economic Developers Association; Dr. Caroline Winchester, Chadron Public Schools; and Dr. Troy Loeffelholz, Columbus Public Schools; and Larry Grosshans, Norris School District 160. Welcome. Thank you. [LB958]

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JOHNATHAN HLADIK: (Exhibit 31) Thank you and good evening,... [LB958]

SENATOR GLOOR: Getting there. [LB958]

JOHNATHAN HLADIK: ...Senator Gloor and members of the committee. My name is Johnathan Hladik, that's J-o-h-n-a-t-h-a-n H-l-a-d-i-k, and I'm the policy director at the Center for Rural Affairs. We agree that property taxes are too high and local government entities are too reliant on property taxes. But while we recognize farmers and ranchers often bear the greatest burden, our objective is not to represent the interests of that one group. Like many other in this room, our objective instead is to support policy that builds strong rural communities and provides opportunity in those communities. And it's because of this that we feel an assessment cap on ag land valuation growth is not an effective way to lower property taxes moving forward. One reason why this is true is because LB958, as we I think understand now, is a tax shift. Many Nebraskans would actually pay more property taxes if this became law. The only beneficiaries would be farmers and ranchers who live near urban areas or highly populated areas. That's because the lower property taxes they would pay could shift more responsibility to businesses and residential property owners who live nearby, and those business and homeowners would experience property tax increases if they wanted to avoid significant cuts to schools, natural resource districts, fire protection, and other key services, as we've heard today. And we feel this would actually increase property taxes by more than 20 percent in some areas, specifically for those individuals. A second reason is, I think we understand now that LB958 is ineffective for most rural counties under this bill. As county property is increasingly agricultural, farmers and ranchers receive a smaller and smaller decrease in property taxes. This is because there are not as many residential and business owners to shift those taxes onto. So this bill would force our most rural residents to either increase the property tax levies, which would get rid of most of the tax cut caused by decreased valuations or continue making significant cuts to schools and roads and law enforcement and other key services. Given that many localities in these areas are at or near their property tax levy limits, increasing these levies, as we've heard, would force them to hold expensive override elections to raise property taxes in order to avoid still more cuts. We feel there are some alternatives to consider. As the Tax Modernization Committee observed, there are better ways to lower property taxes. For example, the state could restore some of the aid it has taken from schools, counties, and other localities in recent years. Because of those aid cuts, we are 49th in the percentage of K-12 funded by the state; 2nd most reliant on property taxes to fund K-12 schools; and 47th in the country in our state support for local governments. Alternatively, Nebraska also could refocus Property Tax Relief Fund (sic) by enacting the maximum reduction or they could use it for a circuit breaker tax relief fund. Now, in conclusion, we feel LB958 is a policy with significant unintended consequences that could very well have the opposite effect for much of rural Nebraska. [LB958]

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SENATOR GLOOR: Thank you. Questions? Seeing none, thank you for your testimony. Next proponent. [LB958]

JOE BIRKEL: Good evening,... [LB958]

SENATOR GLOOR: Good evening. [LB958]

JOE BIRKEL: (Exhibits 32 and 33) ...Senator Gloor. My name is Joe Birkel, that's J-o-e B-i-r-k-e-l. First and foremost, I am a farmer, I'm a farmland owner, taxpayer. Secondly, I have been the secretary-treasurer for Rural Fire District Number 9 in David City for over 20 years and I'm also a volunteer firefighter. And I am the president of the Butler County Mutual Finance Organization. As a fourth-generation farmer, I am very concerned about the runaway property taxes for our farmers and our ranchers. For example, in 2008, a piece of irrigated land was assessed \$35 an acre of real estate taxes. And in 2015, it has risen to \$80 per acre. In 2008, the fire district's share of those tax dollars was 4 percent of that. In 2015, the fire district's share is now less than 3 percent. Our fire district currently has bonded indebtedness that we've used to purchase equipment for our firemen for rescue equipment. Many departments around the state that provide both fire and rescue protection have also used bonded indebtedness to equip their members. Our rural board consists of three farmers, a equipment dealer, and an employee at the Frontier Co-op and all are farmland owners. We've strived to be very diligent in the way we've levied. The uniqueness of the rural fire district requires us to make decisions for the safety and well-being of our firefighters and the people and the property of our community, as well as those who travel the highways of our great state. Our board has been able to do that in a fiscally responsible manner. We have lowered our levy in these times of increased valuations. We have only increased our tax dollar request once in the last five years. I would challenge any other taxing authority to match that record. Our ability to make decisions for the safety and well-being of our citizens is essential. If we are forced to delay replacement of equipment to campaign for permission to do our job, to be able to go out and float a bond, the community will suffer and our volunteer membership will decline. The tax dollars that I pay my fire district are by far, I feel, the best value for the small percentage that they are given. The hours spent by those who volunteer save our state millions of dollars. As a farmer, I agree that we need to address property taxes but I'd say, let's focus on the fat and not the lean. [LB958]

SENATOR GLOOR: Thank you for your testimony. Do you have a list of where that fat is so we can get right to work on it? [LB958]

JOE BIRKEL: Well, I looked...I compared my tax statement on that piece of property from 2008 versus 2015. The school district received \$2,300 off that piece of ground in 2008. In 2015, the school district received \$6,300. My math says that's 258 percent increase in seven years. Has the

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cost of education gone up 258 percent in the last seven years? There's...you know, the dollars are being collected from the agricultural land and it's going somewhere. And it's...my point is, as a fire district, I feel that we've been very diligent. And I think the value that we get from our fire districts...I caution that we restrict our ability to equip our members with the ability to float bonds and buy equipment. [LB958]

SENATOR GLOOR: Well, and my request was only half in jest. And I appreciate your candor in saying you have some concerns about spending at your local school. And that's not a judgment by me, at least, on whether it's the case, but it's part of the challenge we have since that's a local school board that gets elected by constituents in your area to manage things. So therein lies our challenge, I think, legislatively, just in a nutshell. Senator Brasch, I think you had a question. [LB958]

SENATOR BRASCH: Thank you, Chairman Gloor, and I wanted to thank you, also...is it Birkel? [LB958]

JOE BIRKEL: Birkel. Mr. Birkel, yes. [LB958]

SENATOR BRASCH: Birkel. Mr. Birkel, thank you for coming here to testify and thank you...is this a volunteer fire... [LB958]

JOE BIRKEL: Volunteer fire department, yes. [LB958]

SENATOR BRASCH: Thank you for that. Yesterday we had a hearing and I would be the first to agree with many here. You know, we talked about how do we help the volunteer fire departments. I think that's a different bill, though, too. I'm wondering if NEMA...another area...and in my district, many--my husband farms--many of the farmers are with EMTs and helping. And, however, what I'm really concerned about here is that, again, you know, on the backs of farmers, do we fund our schools, do we fund our fire...you know, how much funding, you know, can that farmer carry on that load? And I'm just wondering, to put things aside, you know to take a look at let's solve a problem at a time. Let's look at spending. You had mentioned possible excessive spending there, but could you agree to solving one problem somehow, one step, one small step? [LB958]

JOE BIRKEL: You know, my experience on the rural board, you know, we saw these rising valuations and it's like, you know what? This is the dollar amount that we operated under last year. We know what our bond payments are, we know what our operating costs are. The

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valuations are going to go up. We're going to lower our levy and hold the line on these taxes, and we did that on four out of the last five years in times... [LB958]

SENATOR BRASCH: But, again, lowering a levy means that someone else is paying. [LB958]

JOE BIRKEL: Well, you know, the levy is just a hypothetical number, you know, because... [LB958]

SENATOR BRASCH: Yes. But the revenue is coming from...yeah. [LB958]

JOE BIRKEL: ...it's the dollars that are actually coming in, you know? And that's the number that I look at when we set our budget. How many dollars do we need? Whether it's a 4-cent levy for a fire district or whether it's \$1.05 for a school, it still takes a certain number of dollars to operate. And I know what we've done over the course of the last number of years. And just looking at my tax statements, you can read the numbers on what has happened elsewhere. [LB958]

SENATOR BRASCH: But are you coming here mostly because you're concerned about the volunteer fire department's budget? You're not denying the property tax crisis? [LB958]

JOE BIRKEL: Oh, absolutely. I think...absolutely. I mean, you look at the valuations and the amount of dollars that are being collected now versus what they were, the example I used, seven years ago. There's a ton of dollars that has increased over and above the 3 percent that we've been talking about all day that's just getting salted away somewhere, whether it's in a...maybe it's getting spent on field turf on a football field in a small town somewhere. [LB958]

SENATOR BRASCH: And this is where I...and, again, I appreciate there's other people, but I wanted to separate the two a little bit, if that's even possible, to look at the issue of how do we make a solution a little bit better. And perhaps come back to another hearing and let's talk about our firefighters and the volunteers ones, especially. [LB958]

JOE BIRKEL: Well, I think my big issue is being able to have the ability to acquire bonded indebtedness. That's my (inaudible). [LB958]

SENATOR BRASCH: All right. Thank you. [LB958]

SENATOR GLOOR: Senator Davis, did you have a question? [LB958]

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SENATOR DAVIS: I think I'm good, thanks. [LB958]

SENATOR GLOOR: Okay. Thank you for taking the time to be here. [LB958]

JOE BIRKEL: Okay. [LB958]

SENATOR GLOOR: Just a check on where we're at here, how many people want to be heard on either this bill or either of the next two bills who are up? I'm trying to get a measure of number of testifiers we have left here today. And that would be on all bills. Is that correct? But there are some people back here want to be heard on the other two bills also. We're going to take a break at 6:00, a recess for about 20 minutes, not for long, but to give the staff and the legislators and you, frankly, a chance to stretch your legs. We don't want anybody limping away with phlebitis after one of these hearings. And I'm at an age where I think...pardon? [LB958]

NED MEIER: Is there coffee out there anyplace? [LB958]

SENATOR GLOOR: You know, if you treat me nice, I think I can find a cup for you someplace. All right, just so people know, as close to 6:00 as we can, we're going to take a short...just a short break. And then we'll reconvene and pick up where we left off. And I trust everybody to kind of remain in the order they were. All right, thank you. And the floor is yours, sir. [LB958]

NED MEIER: (Exhibit 34) My name is Ned Meier, spelled Ned, N-e-d, Meier, M-e-i-e-r. I'm a farmer from the Grand Island area. I'm in a urban-rural taxing district, school district, and so forth. The information that I've handed out to you there is something that you probably have anyway, because I sent it to you by e-mail. I'm not sure if everybody got it or not, but I handed it out again as a source of reference. What you've got there is really the basis of what my testimony is going to be about. I'd like to congratulate or express my appreciation to Governor Ricketts and the committee and so forth that have tried to work on the tax problem. I know they did it in good faith and did the best they could. But I don't think we've even started to talk about the problem that we really have as far as taxes are concerned. One thing I'd like to state first is, my...not my assumption but my...the premise that I'm working on is that there is no other source of revenue to pay taxes than income. All taxes are income taxes in some way or another. Sales tax, you pay part of your income, depending upon how much you buy and what you buy. Property tax is on how much you...property--I'm not even going to say you own it--you've got your name on it, because a lot of us have our name on property that we certainly don't own. So tax situation...when you're talking about taxes, you're talking about a subject that has two parts. My hearing is not 100 percent today, but I didn't hear anybody talk about it in those terms. One part of a tax problem is the amount of taxing revenue that our governing agencies are requesting that be supported by taxes. That's an amount. That's a number that should be discussed at your local

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board, your school board, your county commissioners, all that type of thing. That is where that problem should be solved. The second problem and the problem that I want to address here today, has to do with the method by which those taxes are assessed. We're talking about method here. We're talking about something a little bit different. And I'm taking this thing in a much different direction than what I've heard all day. So I'd like to use my particular tax statement...property tax statement for 2015. I have a home that's been valued for tax purposes as \$168,000. We have a nice home. When people come in, they compliment my wife on our home. It's not extravagant, but it is nice. And what I'm also assuming here is anybody that has a home of \$168,000, our incomes are equal. I'm saying that the house that you live in has some relationship to the amount of income that you generate each year. That's another assumption. Well, in my situation, our home is valued at \$168,000. Our property tax on that home is something like \$2,360. My total tax liability is close to \$26,000. I think, Senator, you made a comment a couple of times, how much more can farmers handle? I don't think there's ever been anybody that put a number on what the disparity is as far as urban and rural taxes. That is the problem that you need to solve. [LB958]

SENATOR GLOOR: Mr. Meier, I need to ask if you can--you're on a red light now--if you can wrap up your thoughts. [LB958]

NED MEIER: Oh, I'm sorry. Well,...I'm sorry. But this is the issue we have, getting a system in which everybody pays a fair share with respect to income. The discriminatory way that property tax is issued in an urban-rural setting is unacceptable. [LB958]

SENATOR GLOOR: Thank you. Are there questions of Mr. Meier? Senator Schumacher. [LB958]

SENATOR SCHUMACHER: Thank you, Senator Gloor. Thank you for your testimony today. If we're focusing in on income, let me ask you this. If I, a few years ago, bought a rare coin for \$500... [LB958]

NED MEIER: I'm sorry, I can't hear you very well. [LB958]

SENATOR SCHUMACHER: If a few years ago I bought a rare coin for \$500 and today I sell it for \$10,500, do I have \$10,000 in income? [LB958]

NED MEIER: When you sold it, you have income. That's correct. [LB958]

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SENATOR SCHUMACHER: Okay. So we're focusing on that kind of income, as well as if I went out and went to work for so much an hour and got a paycheck. Correct? [LB958]

NED MEIER: Did you say you bought land? [LB958]

SENATOR SCHUMACHER: No, a coin. [LB958]

NED MEIER: A coin. Okay. Yeah. [LB958]

SENATOR SCHUMACHER: But that's a good suggestion. What if that coin were an acre of land and I sold it? Would I still have \$10,000 in income? [LB958]

NED MEIER: When you sold it, you would have \$10,000 income. [LB958]

SENATOR SCHUMACHER: And should I be taxed on that income? [LB958]

NED MEIER: Yes. [LB958]

SENATOR SCHUMACHER: Okay. And what if, instead of selling that, I died and my heirs sold it for \$10,500. Should they be taxed on that \$10,000? [LB958]

NED MEIER: It's income. [LB958]

SENATOR SCHUMACHER: Okay. Thank you. [LB958]

NED MEIER: Well, the situation we have here is that income that we...I am suggesting to you that this tax all be made from income tax. In other words, if I make some income, I am more than willing to pay taxes on it. But when I don't have income, then I am not willing to pay or shouldn't be paying taxes on it. The other issue on is, between my urban neighbor and myself, I am taxed at a rate 11 times higher than my urban neighbor. [LB958]

SENATOR SCHUMACHER: But in the end game, you pay...the heirs pay zero income tax, zero estate tax, zero sales tax, and they have \$10,000 an acre--in that particular description--income which goes completely tax free. [LB958]

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NED MEIER: Well, there's estate taxes on income. If you have income, you're taxed on it. At least I am. I don't know how you get by with it. [LB958]

SENATOR SCHUMACHER: Estate taxes...there's no Nebraska estate tax, there's no federal estate tax between a couple, if it's up to \$10 million, and there's only a 1 percent county inheritance tax. [LB958]

NED MEIER: Well, when we're taxed on property, we don't sell it. We try and make a living off of it. And I'm more than willing to pay taxes on what it generates in income and pay my fair share, the same as my urban neighbor that is an accountant in the city. And he makes \$50,000, I make \$50,000, I'm more than glad to pay my fair share based on \$50,000. [LB958]

SENATOR SCHUMACHER: Thank you. [LB958]

SENATOR GLOOR: Senator Scheer has a question. [LB958]

SENATOR SCHEER: I just have the second chapter to that story. And forgive me if I speak quickly, but we're running out of time today. [LB958]

NED MEIER: Yeah, I understand that. [LB958]

SENATOR SCHEER: Senator Schumacher seems to bring this up at all different occasions. Going back to his little tale, you know that coin that he bought for \$500 and sold for the \$10,500, you know what? If you did that and when you died, your family wouldn't pay taxes on that escalation of value on that coin either, just like you don't pay it on ground or you don't pay it on stock. So do you think it would be fair that you would have to pay it on just ag ground and not any other appreciable asset? [LB958]

NED MEIER: Income is the only thing that pays taxes. I am willing to pay taxes on income. [LB958]

SENATOR SCHEER: Right. But should... [LB958]

NED MEIER: Do we disagree on that subject? [LB958]

SENATOR SCHEER: No, no. But do you agree then, if you're going to pay that on your estate on your ground that you've worked with your whole life, should Mr. Schumacher or Senator

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Schumacher pay it on stock or any other appreciable asset that when he passes away his heirs will inherit? Should they pay taxes on it too? [LB958]

NED MEIER: Since you brought up the subject of stock, I would say, Mr. Buffett in Omaha doesn't pay any more property tax than the majority of farmers and ranchers in the state of Nebraska. And what I'm trying to explain to you is the inequality and the ag,... [LB958]

SENATOR SCHEER: Oh, no, sir, I understand what...I understand what you're explaining to me. [LB958]

NED MEIER: ...and the problem that we have with property tax in a urban-rural district. In a city district, an urban district property tax is fine. Everybody is on the same page. Urban-rural, they're completely different and they're not even related. [LB958]

SENATOR SCHEER: I understand. I was following Senator Schumacher's comments, making sure that on the record we noted that it is not just farm ground that is avoidance of tax when you sell it or when it's sold by heirs. Any asset that is sold has a stepped-up value. I'm just trying to make sure that, again, we don't have a one-sided conversation. And that would be all I'd want to add, Senator Gloor. Thank you. [LB958]

NED MEIER: Well, we have a very serious problem, folks. Valuations that increase are only a symptom. You've got a serious problem in terms of tax structure. And I know you're not going to solve it. I don't know for sure how it's going to get solved. There's a group of farmers in Ohio that have filed a suit against the tax department in Ohio for a billion dollars, with a "B." I don't know where that's going, I don't know when it's going to take place. [LB958]

SENATOR GLOOR: Well, thank you. [LB958]

NED MEIER: If there's no more questions, thank you. [LB958]

SENATOR GLOOR: Thank you for driving in on a day with bad roads and be safe going back, Mr. Meier. Nice to meet you finally. [LB958]

NED MEIER: Thank you. [LB958]

SENATOR GLOOR: Next proponent...opponent. [LB958]

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RANDY SCHMAILZL: Randy Schmailzl, R-a-n-d-y S-c-h-m-a-i-l-z-l, president of Metropolitan Community College in Omaha, Nebraska. Senator Gloor and committee, I'm here today on a couple "for instances" in this bill. Currently, the community colleges are under a number of lids already and restrictions of general fund and capital funds limited to 11.25 cents, with 2 cents for capital. There's a restricted revenue that we heard about today, that's property tax and state aid--it's for both, it includes both--are limited by a lid that provides an annual 2.5 (percent) base growth for community colleges, so we can go up 2.5 (percent) in our budget. And this could be increased by the percent of student growth that is above the 2.5 percent. So if we go up 3 percent in enrollment, we can go up 5.5 percent in our budget. And then you can go an additional 1 percent if you have a supermajority vote by your board. And that's how our budgets are built. So when you run into this restricted money, it's because your enrollment has gone down or your budget is higher than the 2.5 percent for some reason. And so I do want to talk about why this restricted is so important. And it's important enough I think for the committee to take extra time to look at this and understand exactly what this restricted money is about for all political subdivisions, because I can't tell you how it's used for a rural fire department or a city or a county. Maybe it's used the same way, except I wouldn't think so, because they don't have enrollment growth like we do. So I would make sure that we understand completely on this restricted money how it's going to be used. And for Metro, this bill on the...especially the 3 percent limitation on the carry forward of unused, creates a problem for a school like Metro that over the last years, we hear about community colleges. And, yes, Metro is a community college, but our...since 2009, our property tax valuation has gone up 16.6 percent. And that's a little different I think than probably some of the other areas of the state. And I'm not sure Metro is the largest political subdivision in the state by virtue of people that live in the district, but we have 700,000 people that live in our four counties: Dodge, Washington, Sarpy, and Douglas. And it's important for us not to have any unexpected consequences from this bill, because my concern isn't what I know, it's what I don't know. I'm concerned that I don't know all the intricacies of how this bill relates to each other, along with other bills that may be passed in the Legislature. So Metro has traditionally kept its property tax static. We've, back in 2008, experienced a shortfall of about \$8 million in expected state aid. We had to pass that on to our property tax owners. So we went from a seven year 5.7 (percent) levy; we jumped up to 7.5 (percent) in our general levy. So in a span of about 15 years we've only raised our property tax once. And if the question is on how much property tax, Metro is 45 percent property tax, 27 percent state aid, 27 percent tuition, and then 1 percent other, meaning grants or leases that we may have. We serve 42 percent of the community college population in the state of Nebraska. And we only have 5.5 percent of our total land mass that's agriculture land in our four counties, so we have a very small portion of our land. And we are concerned that the burden of this is going to be on our taxpayers and our constituents aren't going to benefit very much. So I don't know the answers to all those questions, but I wanted to at least tell you the concerns from our board of governors and from people we serve in Omaha. And I'll stop now. Thank you. [LB958]

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SENATOR GLOOR: Thank you. Questions? Senator Davis. [LB958]

SENATOR DAVIS: Thank you, Senator Gloor. I've just got a question, Mr. Schmailzl. [LB958]

RANDY SCHMAILZL: Yep, no problem. [LB958]

SENATOR DAVIS: You said 27 percent state aid,... [LB958]

RANDY SCHMAILZL: Uh-huh. [LB958]

SENATOR DAVIS: ...27 percent tuition,... [LB958]

RANDY SCHMAILZL: Correct. [LB958]

SENATOR DAVIS: ...and the balance then is property? [LB958]

RANDY SCHMAILZL: Yeah, 45 percent property tax. [LB958]

SENATOR DAVIS: And I think you said 5.7 percent of the land is ag land. Are you talking about the valuation or are you talking about the land itself? [LB958]

RANDY SCHMAILZL: I'm talking about the valuation. Five point...that's a good point, thank you for clarifying that. Five point five percent of our valuation comes from ag land in our four counties. Thank you. [LB958]

SENATOR DAVIS: Thank you. [LB958]

SENATOR GLOOR: Seeing no other questions, thank you. [LB958]

RANDY SCHMAILZL: Yes, thanks. [LB958]

JOE MANGIAMELLI: Senator Gloor, members of the Revenue Committee, my name is Joe Mangiamelli; it's M-a-n-g-i-a-m-e-l-l-i. I'm the city administrator for Columbus, Nebraska. Columbus, Nebraska has been able to meet the growth that its citizens demand over the last ten years, maintaining a mill levy of 35 mills. And our elected officials are very proud of that. Those same elected officials have been able to return, in the last three years alone, over \$1.2 million in

bond refinancing. Our bond advisers tell us that if this bill goes into effect, they expect that any bond refinancing in the future will have to go to an election of the people. That doesn't make any sense. What I'm really here to ask for consideration is unfunded federal and state mandates. Mayor Johnson talked about her potential levee improvement. Columbus is going through a levee improvement right now where when we began the project we were looking a local cost of \$1.2 million. That local cost after federal aid...or, excuse me, federal intervention is now up to \$3.8 million. There is no federal or state assistance in that project. That project we hope to get it in bid within the next month and awarded hopefully before this bill would go into effect so we don't have to go to our population and say, okay, we've got this federal mandate to recertify our levee. Do you support that \$3.8 million, which is going to come from local sales tax at this present time. My concern is future unfunded federal and state mandates and how they would be impacted by this bill. The carryover I think needs to address those items and how they might affect a community. You know, asking a population to support something that is coming from either the state or the feds may not be as well supported as we think. What are we looking at presently? We're looking at the potential for nitrogen treatment in our wastewater treatment plant. That's not just for Columbus but statewide. How are we going to fund those things and is it going to be something that we could take in a bond issue to the population and ask them to support? Our local elected officials need the flexibility to be able to address those. That's my testimony. Thank you very much. [LB958]

SENATOR GLOOR: Thank you, Mr. Mangiamelli. Questions? You said when this bill goes into effect. I appreciate your optimism. (Laughter) Maybe in this case it's pessimism, but. [LB958]

JOE MANGIAMELLI: Well, they always told me never to say if, but when. [LB958]

SENATOR GLOOR: Okay. Thank you for your testimony. [LB958]

JOE MANGIAMELLI: Thank you. [LB958]

STEVE CURTISS: Hello, Senators. I'm Steve Curtiss, C-u-r-t-i-s-s, and I'm the finance director for the city of Omaha. A lot has been said already about cities, so I'll just try to key on a few things that we sort of noticed. One is that we would echo the concern about the interlocal agreements. We have quite a few of them. We've used them to reduce our tax structure quite a bit and reduce the taxes. We've used them for things like 911, fire protection, IT, purchasing. We have a couple in the works, at least one with UNMC and we'd like to see those continue. Another thing, and this would get to the 3 percent I know, Senator Brasch, you've talked about, when we do annexations which we do a lot of we would run into the 3 percent cap. Our last year when you go from '14 to '15 we were above 3 percent and it was primarily related to an annexation. So we'd ask you to at least reconsider how that works in our situation because it does raise us quite a

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bit. We had some concerns about road funding with things like the gas tax that just came in. I'm not sure how that would play into these lids, but it could affect us. And I did make some other notes about things that might affect us and...or other things of note. One is that we did lower our property taxes by 1 cent this past year. The city of Omaha's general fund grew about 2 percent over the last few years, so we have tried to maintain that. Our property tax makes up only about 17 percent of our total funding and obviously little to none of that is ag. A vote for us costs between--if we have to send anything to a vote--it's between \$100,000 and up to \$400,000 depending what's on a particular ballot. And we don't go to every ballot. It's really just the mayoral and city council and if we have a GO bond. And the city is still dealing--we were talking about unfunded mandates--with a \$2 billion CSO project. So we're still kind of in the midst of that unfunded federal mandate. So those are the only things that were maybe a little different than what you've heard. And with that, I'll take questions. [LB958]

SENATOR GLOOR: And thank you for your testimony being geared towards things we haven't heard yet. That really is a help to us. Have you put...is there a way for you to put those in writing? I mean we've got the testimony here. [LB958]

STEVE CURTISS: Sure. [LB958]

SENATOR GLOOR: But is there a way to put that in writing and get it to us? [LB958]

STEVE CURTISS: Yeah, I'd be happy to. [LB958]

SENATOR GLOOR: We'll circulate it to the committee members. [LB958]

STEVE CURTISS: I'd be happy to. [LB958]

SENATOR GLOOR: Questions? Senator Davis. [LB958]

SENATOR DAVIS: How does an annexation affect this? I'm not sure I get that. [LB958]

STEVE CURTISS: In an individual year what happens is...and I'll take our last annexation package, it was \$1 billion of valuation. That would be by the time we put our regular budget in which might be 2 percent, 2.5 percent, and then you add that valuation, we'd be at 3.5 percent, 4 percent. And there's no provision in there to allow us to get around that. [LB958]

SENATOR DAVIS: To access that additional annexation budgets. [LB958]

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STEVE CURTISS: Because we have additional property tax valuation and additional property by that annexation. [LB958]

SENATOR DAVIS: So are we talking SIDs? Is that what we're talking about? [LB958]

STEVE CURTISS: Yes. And we may be one of the few parts in the state that have a fairly robust SID development community. [LB958]

SENATOR DAVIS: Thank you. [LB958]

SENATOR GLOOR: I don't see any other questions. [LB958]

STEVE CURTISS: Thank you. [LB958]

SENATOR GLOOR: Thank you. [LB958]

DENNIS MEYER: (Exhibit 35) All right. Good afternoon. My name is Dennis Meyer, D-e-n-n-i-s M-e-y-e-r, and I am the budget and fiscal officer for Lancaster County. In my previous life I worked for the State Auditor's Office and I happened to have been around back in '98 when these...when the lid came out. And so I was involved in setting up a lot of those lid forms and stuff like that. So the last, how many, 18 years of my life I've dealt a lot with just lid stuff. The couple things that I just want to address today is getting into some of the technical issues with the lid itself. How to we set that new revised base amount, I mean, because that is a huge factor because if you talk to political subdivisions over the years, when that base amount got set back in '98, depending on your situation, it might have set a pretty decent number for you. Or it might have really kind of crunched you down to a number that's kind of been tough to live with over the years. So you know, with this lid, I keep hearing spending lid. I keep hearing things like that. I kind of just want to make sure that we're kind of all on the same basis. When I think of the lid on restricted funds, I think of a lid on how much revenue, state aid, and property tax can I bring in, in a given year. Then the exceptions to that lid are then based expenditures. So when you take the revenues, mix it with the expenditures, it makes for a very difficult lid to understand. If you happen to go back and take a look at the definition of state aid, I mean it's all over the place in there. You know, you've got insurance premium tax, you've got motor vehicle prorate. You've got different numbers out there that in the big picture really are kind of small and don't mean a whole lot at this point in time. You know, I'd recommend the committee look at the lid overall. What do you actually want from the lid? Right now with highway allocation, you're wanting to remove the capital improvements exception. Now our highway allocation money is part of that lid, but the statutes all force it to be used for something, mostly capital improvements. So do we

still need highway allocation money in that lid if we're limited by statute on what we can use it for? Because what happens is now, that new gas tax money that's coming in, I'm not allowed to build that into my new base amount, but it's going to keep growing. So what's it going to do? It's going to force my operating money to come down to meet that. Now again, I'm not for sure if that's what you were thinking that the lid would do also, because if we're wanting to get rid of improvements, let's just take highway allocation money out of it. You know, you get into transfer of surplus fees. You get into all kinds of different restricted funds. Now would be a great time to look at it because right now it is confusing and it is tough to make sure. Because if you think about '98 versus the current day right now, have we gotten what we wanted? Probably depends on each political subdivision. So again, I think it would be a good time to take a look at that. Lancaster County over the last nine years, in '08 we had a 27.55-cent levy. We've got a 27.83 cents right now. And our average valuation over those nine years was 2.62 percent. Now you know, I've heard the question on, you know, can you live within 3 percent? If it's on the spending side, we sometimes don't stay within that 3 percent because we might have additional money coming in--visitor improvement money. We might have some other funding that comes in at a greater level that might push our overall spending over and above that 3 percent. We focus in on what's happening with our property taxes. And that's where we kind of go. Other than that, I just kind of want to throw out to you that Lancaster County, we're more than willing, along with NACO and others, to talk about this lid because I think it would be a great time to actually look at the lid overall. And by making these couple tweaks just to the exceptions, I think that leaves some unforeseen circumstances and maybe we need to look at the whole broader picture. Other than that, I'll answer any questions you might have. [LB958]

SENATOR GLOOR: Senator Brasch. [LB958]

SENATOR BRASCH: Thank you, Chairman Gloor, and thank you as well, Mr. Meyer. And you were the Auditor at one point, State Auditor? [LB958]

DENNIS MEYER: I did...yeah, I dealt with budgets from the State Auditor's Office for...I was there for 17 years; I probably did budget stuff for 8 or 9. [LB958]

SENATOR BRASCH: And what we're looking at here, in my view, is you might possibly be looking at revenue. I hear you refer to revenue. Revenue is, in this situation, is not just a spreadsheet. It's real people who are being excessively burdened in a certain sector. And they're not a spreadsheet. They're looking at...and you're saying a lid would be harmful. Well, they're being harmed already. So what is the growth for Lancaster County? Does it exceed the...you know, is 3 percent asking too much? If not, how much growth do you want? [LB958]

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DENNIS MEYER: And I don't...our tax growth, our valuation base has grown at about 2.62 percent over the last nine years. So I'm not saying that the lid is harmful. I'm saying look at how the lid is set up right now. Since '98, is it still at what you're wanting out of it because we've got a lot of stuff in there that confuses the issue. And it makes it tough because our lid will grow at 3.5 percent with a 2.5 plus 1. But then you're talking 3 percent from your side. So when you don't exactly see a 3 percent because my lid can grow at 3.5, it's going to just...it's going to confuse everything. I mean we can throw out numbers but you've got to take a look at each piece of the pie because numbers will come in at all different type of percentages. [LB958]

SENATOR BRASCH: And you must follow state revenue, just off and on. Would you agree that we're probably at unprecedented property tax increases? [LB958]

DENNIS MEYER: I mean, no doubt about it. [LB958]

SENATOR BRASCH: No doubt about it. [LB958]

DENNIS MEYER: No doubt about it. [LB958]

SENATOR BRASCH: This is unprecedented and I think we need to take, perhaps, some unprecedented measures to put this button on pause a little bit. And I believe, from what you're saying here, since you're at 1.2 percent, 3 percent, your objection is that it perhaps may need to happen. [LB958]

DENNIS MEYER: Well, and at times. What happens in Lancaster County is we do a revaluation every three years. So there will be a couple years that it will grow at 1-2 percent and then that third year it might pop up to 5 percent. So that has...that's kind of how we've kind of adjusted and how we kind of build our budgets are somewhat that way. So an automatic 3 percent would cause us problems right now every three years the way we do it. [LB958]

SENATOR BRASCH: And when this does take effect, you do have time. The state, as you know, budgets in a biennium. [LB958]

DENNIS MEYER: Right. [LB958]

SENATOR BRASCH: We budget for a two-year period. We commit ourselves in that two-year period to stay within our 3 percent. And you believe the county, Lancaster County, could not follow suit? [LB958]

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DENNIS MEYER: I'm saying we could at times, you know, at times. It kind of depends on what's happening. You know, we've sold Lancaster Manor. We have gotten out of the mental health center business. We've done things to...but every year that we're doing things, something else is fluctuating. So sometimes just an automatic 3 percent could be tough at times. [LB958]

SENATOR BRASCH: There's a potential... [LB958]

DENNIS MEYER: Yeah. [LB958]

SENATOR BRASCH: ...but it's not an absolute. [LB958]

DENNIS MEYER: No. No. I mean, it is not. It is not. [LB958]

SENATOR BRASCH: I have no other questions. Thank you very much. [LB958]

DENNIS MEYER: Yeah, you bet. [LB958]

SENATOR GLOOR: Seeing no further questions, thank you, Mr. Meyer. [LB958]

DENNIS MEYER: Okay. You bet. [LB958]

SENATOR GLOOR: This will be our last testifier before we take our recess. Thank you. You're not last man standing, but you're last person before the recess. So go right ahead. [LB958]

JOHN TURNBULL: (Exhibit 36) Chairman Gloor and members of the Revenue Committee, I am John C. Turnbull; that's J-o-h-n C. T-u-r-n-b-u-l-l, retired manager of the Upper Big Blue NRD. And I retired last Friday. Maybe I should have retired two weeks ago. Today I submitted a letter from the Lower Niobrara. It will be passed around to you. I am the only person today that's going to testify for NRDs. I will try to make this short. Natural Resources Districts have been under various property tax limits, including the current 2.5 percent limit, since their creation in 1972. Average property tax levy for all purposes in the current fiscal year for all of the districts is 3.23 cents per \$100, which is well below the limits established by law. In the case of groundwater management, that can go as high as 5 cents. This levy is less than last year's levy. The proposal before us today causes problems for local districts to modify budgets to address local needs. LB958 virtually makes it impossible for local districts to adjust budgets to collect taxes in the year or years they're needed to pay for projects--and I'm talking about capital expenditures on large dams, levee projects, and the like--then lower them in the years that they're

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not needed and then raise them again in future years when another project comes along. And that really gets to the core of this thing, is a constant 3 percent limit makes it very difficult to do major capital projects. We can't budget a several million dollar project and get it done on a steady basis like we have staff that we know so much is going to be spent each year. Capitals vary a great deal. Planning will slow them down. Planning will speed them up. And so we need the flexibility to deal with that. The other things that we're very concerned about is the ability to develop new cost-share programs. As an example would be when we're requiring meters for water management across the state, we like to have the ability to, in some districts, to establish cost-share programs. With these limits, some may not get at that. The state is number one in irrigated agricultural. As groundwater levels that are at predevelopment levels, we still have challenges clear across the state and we need to deal with those as those come up. Third, the proposal eliminates incentive to use interlocal agreements to work together with other local political subdivisions and local NRDs on river basin issues. And we feel that that needs to stay in the law. We work with the cities. We work with counties. We work with the state. We work with other districts on sharing employees, sharing technical advice, sharing capital expenditures. So those interlocal agreements are very important to us to continue to operate. Another major thing that's being worked on through agreements in several districts are working with the irrigation canal companies and the Department of Natural Resources through agreements to capture off-season Platte River floodwaters to alleviate flooding of private property, provide groundwater recharge for beneficial uses. This use of excess floodwaters is of direct benefit to the ag community. However, the districts need to set aside cash to have on hand to pay those canal companies for the use of their canals. And floods don't come on a schedule. So we need to have flexibility to deal with that. I have listed several examples and I'm not going to go through that. We're also concerned about unused budget authorities. And other that people have already talked about that, so I won't go into that in detail. I'll be glad to answer your questions. [LB958]

SENATOR GLOOR: Can you give me an example, or did you when you were talking about cost-share projects? [LB958]

JOHN TURNBULL: Cost share on water meters would be one example, per se. [LB958]

SENATOR GLOOR: Gotcha. [LB958]

JOHN TURNBULL: The Lower Elkhorn NRD is doing that now and they just now have a requirement to...meters districtwide by January 1 of 2018. [LB958]

SENATOR GLOOR: Other questions? [LB958]

SENATOR DAVIS: A couple questions, Senator. [LB958]

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SENATOR GLOOR: Okay, Senator Davis. [LB958]

SENATOR DAVIS: Some of our NRDs are using an occupation tax. [LB958]

JOHN TURNBULL: Yes. [LB958]

SENATOR DAVIS: And so obviously that would be...it would be difficult to put that in place in a new NRD with this lid in place, would you say? [LB958]

JOHN TURNBULL: The occupation tax are authorized when there's a fully or overappropriated basin designation by Department of Natural Resources. The Republican (River) districts have done that to deal with those huge litigation problems with the state of Kansas. In a district such as the Upper Big Blue, we have 80 percent of our cropland is irrigated and an occupation tax goes to the irrigated lands. In the case of like the Lower Loup out of Ord, 50 percent of their land is grasslands. And so occupation tax shifts that load from all ag and all property owners to irrigation. So, it needs to be used cautiously. [LB958]

SENATOR DAVIS: So if a district was fully appropriated and needed to impose an occupation tax of some kind in order to make the changes necessary and put in the meters,... [LB958]

JOHN TURNBULL: Yes. [LB958]

SENATOR DAVIS: ...it would be very difficult to do that with this 3 percent lid. [LB958]

JOHN TURNBULL: As I...I'm not sure about how this bill reads. I don't believe it affects the occupation tax. [LB958]

SENATOR DAVIS: Okay. That's why...I guess I should have asked that question in the first place because that's... [LB958]

JOHN TURNBULL: Yeah, I don't think that it does. The way I really read your 3 percent is that's the limit on valuation change per year. [LB958]

SENATOR DAVIS: Thank you. [LB958]

SENATOR GLOOR: Seeing no further questions, congratulations on your retirement. With all that extra time you should run for the Legislature. (Laughter) [LB958]

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JOHN TURNBULL: Yeah, right. My wife says, you're doing what this week? [LB958]

SENATOR GLOOR: Thank you. [LB958]

JOHN TURNBULL: Thank you, Senators. [LB958]

SENATOR GLOOR: And we'll be recessed until 6:20 and then reconvene. Thank you for your patience. [LB958]

BREAK

SENATOR GLOOR: (Recorder malfunction)...sticking with us and we'll continue with those in opposition to LB958. Good evening. [LB958]

TOM PLACZEK: Good evening. My name is Tom Placzek, T-o-m P-l-a-c-z-e-k. I am the Platte County Assessor and I'm also the representative for the Nebraska Association of County Assessors to NACO. Just a couple points on LB958. I believe, Senator Sullivan, you had asked about the valuation notices earlier in the afternoon. And I believe in the past, those sorts of situations where you have multiple values on a notice cause enormous amounts of confusion. I know Senator Gloor liked the yellow postcard that went out here recently, but believe me, that caused an enormous amount of confusion for treasurers and assessors alike. I'm not saying it wasn't necessarily a good idea to let people know what's going on because, even though it's been available since 2007, the public still didn't know. I think this will really cause a lot of problems. You're going to have the old, you're going to have kind of the new, and then the adjusted new value on this notice. When they file protests, they're going to put down...who knows what value they're going to put down? We're going to have to deal with that. So there's going to be some confusion on that. I believe Senator Davis had talked about the 3 percent cap and the confusion on that. I believe most people believe this is a hard 3 percent cap. And I don't believe, as I read this bill, this is a hard 3 percent cap. I believe you're going to see all kinds of valuation increases across the state. Every county has to be between 69 percent and 75 percent on their ag values. Platte County may only need a 4 (percent) or 5 percent adjustment this coming year to get at that range. We're currently looking at preliminary statistics where they're like 68 percent on our irrigation and 68.5 percent on our dry. So 4 (percent) or 5 percent cap gets us right around 72 percent. That's fine, our increase. So the western counties, on the other hand, are going to have 10 (percent), 15 (percent), 20 percent increases because of the pasture and ranch lands being a little bit later to this party. The crop ground has basically steadied, leveled. We're not seeing much change anymore. We're pretty much right there. Not everybody was quite as aggressive as we were in Platte, but they're pretty much there. So every county is going to increase by varying amounts to get to the 69-75 (percent), which is all well and good. So we have countywide

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equalization as I understand it. Now we're going to take this aggregate compared to the previous aggregate and take this by whatever that factor might be. Some of these western counties are not going to see a 3 percent increase. They're still going to see a 10 (percent) or 11 (percent) or 12 percent increase based on that. Now if the aggregate would be such that, in our case, Platte County would go all of a sudden from the 72 (percent) and we get a 10 percent deduction, we're going to be below 69 percent. So we're supposed to be between 69 (percent) and 75 (percent), but now the TERC has adjusted us because of this change because this factor. I'm not sure where that leaves us. We won't be in compliance, as I understand this bill. So those are a couple of the major questions I have on this. I think it will...there will be a lot of confusion on this, just on the assessment side of it. I have no knowledge about the levy side and I'll let you guys worry about that. Do you have any other questions? [LB958]

SENATOR GLOOR: Any questions? [LB958]

TOM PLACZEK: Would I then be able to address LB717? [LB958 LB717]

SENATOR GLOOR: Sure. Just for those listening in, if anyone still is, I had offered early on that if anyone had...wanted to double up and make a few comments on LB717 or LB940 while they were up there, they were encouraged to do so. And Mr. Placzek wants to take us up on that. [LB958]

TOM PLACZEK: Thank you. I've got a bit of a drive. So, on LB717, as I understand it, it has an emergency clause so you would, for 2016, you would use the 2015 values. As I read the bill, I'm not sure if that's just a one-year freeze or not. It doesn't really address what happens for 2017. What about changes that have occurred in property status after January 1 of 2015? That is not addressed. Somebody builds a house this last year. It doesn't get on the rolls because that's frozen, that partial value has been frozen. I can't change it. So there's some inequities there. Or a farmer has a irrigated quarter and his next door neighbor puts irrigation on his quarter. Well, I can't change the status on that because that property value has been frozen. So there's some inequities there. I could see just hundreds of protests based on inequities in taxation. Those are just really, really major questions as far as I can tell. And those actually apply, that one particularly applies to LB940 also because it's a three-year freeze and doesn't address new construction and those sorts of things. So you could have a...in Douglas County, you could have a multimillion dollar apartment complex go up and they wouldn't have to pay tax on it except on the vacant lot, as I read the bill. And I think that's pretty much the consensus from people that I've talked to about it. So I think that's a major, major problem. And one other point on LB717 that I think needs to be talked about is the five-year study period from a three-year study period. I understand the reason for it of slowing increases, that sort of thing. However, it works the other way too. Now you're going to slow the increases that are starting to occur on the commercial and

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residential side because this bill addresses all properties; it isn't just an ag bill. So, like in Platte County, we're seeing some large increases in residential and commercial. They have recovered from the recession. Things are really starting to move. Well, if you slow that down, they're not going to catch up. So I think the intent was kind of to shift some burdens from ag to commercial, residential. Well, all of a sudden you're not shifting it as much because this time frame is getting measured out. And also when things start decreasing, I'm not sure, you slowed that...whereas I might be decreasing it quicker, now you slowed that down too. And I think that's what ag property is going to do over the next few years, at least in Platte County. We had a recent sale just cross my desk, came in at 68.85 percent, basically right where we needed to be. And a number of our ag sales have come in that way, a very narrow range. So I think in some ways we're trying to address and cure a problem that is already self-curing. But I know that isn't for all counties and all tax districts, but I think the eastern part of the crop ground, the eastern part of it is pretty much there. We're very close. And the western is playing a little catch up. And LB940 a lot of the same problems except you have a longer period of freezes and I just think that's really going to be...cause a lot, a lot of problems. You're not going to have...your sales ratios are going to be basically of no value because you haven't...you can't change the values on anything. So I'm not sure how this would even work. I don't know how the TERC would even measure it. I couldn't make changes because properties are frozen, so even though this neighborhood should be changed I can't because it's frozen. You know, I just don't see how this...either one of these will work very well. So, thank you. [LB717 LB940]

SENATOR GLOOR: Okay. Senator Schumacher. [LB958 LB717 LB940]

SENATOR SCHUMACHER: Thank you, Senator Gloor. Thank you, Tom, for coming. [LB958 LB717 LB940]

TOM PLACZEK: Yes. [LB958 LB717 LB940]

SENATOR SCHUMACHER: I just wanted to get something straight in my mind. You indicated that in the eastern part of the state, that's usually where the more valuable land is. Things have leveled off, maybe shaving off a bit, and yet there may be significant jumps yet in the western part of the state as far as percentages. [LB958 LB717 LB940]

TOM PLACZEK: Correct. [LB958 LB717 LB940]

SENATOR SCHUMACHER: But when you add the aggregate together, it may look like there's not much jump at all. [LB958 LB717 LB940]

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TOM PLACZEK: Right. [LB958 LB717 LB940]

SENATOR SCHUMACHER: Or maybe flat or whatever. [LB958 LB717 LB940]

TOM PLACZEK: Potentially. [LB958 LB717 LB940]

SENATOR SCHUMACHER: So the folks in the western part of the state will still get their jump. [LB958 LB717 LB940]

TOM PLACZEK: Yes. [LB958 LB717 LB940]

SENATOR SCHUMACHER: And because they're averaged in to the folks in the eastern part of the state which are making up for it with a slope. [LB958 LB717 LB940]

TOM PLACZEK: Correct. [LB958 LB717 LB940]

SENATOR SCHUMACHER: So we don't accomplish anything. [LB958 LB717 LB940]

TOM PLACZEK: Correct. [LB958 LB717 LB940]

SENATOR SCHUMACHER: Thank you. [LB958 LB717 LB940]

SENATOR GLOOR: Seeing no more questions, thank you, Tom. [LB958]

TOM PLACZEK: Thank you very much. [LB958]

SENATOR GLOOR: Have a safe trip home. [LB958]

TOM PLACZEK: Thank you very much. Appreciate it. [LB958]

SENATOR GLOOR: Next testifier. [LB958]

TOM PLACZEK: Have a good rest of your evening. [LB958]

SENATOR GLOOR: Thank you. We're having fun. (Laughter) Good evening. [LB958]

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JOHN WORTHING: Good evening. Thank you for your time and patience today. My name is John Worthing; it's J-o-h-n, last name W-o-r-t-h-i-n-g. I am from Elm Creek, Nebraska, on the Elm Creek School Board, and also here on behalf of the Nebraska Association of School Boards. The legislative committee of the NASB had voted to oppose LB958, and then as well as the Elm Creek district. I'm here to represent both. Obviously we don't feel it's a long-term solution and just feel it's a tax shift. But more on a direct level for Elm Creek, what schools being disparaged at times it feels, I think we do, at Elm Creek anyway, a pretty good job of trying to control our budget, of trying to control our spending. This last year for instance, our budget only increased by \$1,000 on a \$4.9 million budget--trying to hold the line. The cry that came from Lincoln to say, you know, please, local boards, do what you can. We're trying what we can. And with our levy we did try to reduce it. What I would tell you from Elm Creek, six years ago our district was receiving about \$1.4 million in state aid. This current year--and again our, valuations have gone up; our state aid has come down--this current year we're at \$800,000 in state aid. We opted to go below the 95 cent levy which we knew would hit us directly with about \$185,000 hit on our state aid by making that choice. But because of trying to provide relief to our taxpayers, we said we're going to do what we can but try to be cautious at the same time. We did that. Now the projections have come out as to how that's going to affect us. And we're losing \$750,000 in state aid this year. You know, it's a little hard for us to absorb that. And obviously it's a struggle to figure out how and why that happened. But we understand the constraints the state is under. We're going to do the best we can going forward, but like with LB958 and with other things that come from the state on to the schools, concerned that we're being painted with the same brush, trying to solve one problem but creating more in other places from unintended consequences. Do we think that the state was intending to harm Elm Creek by pulling this money away? No. We know that you're trying to balance things out. But we would also like a little stability too. And from the standpoint of not knowing how to budget from year to year and with those fluctuations, when we do become "semireliant" on that state aid, if we were going to give more tax relief to our taxpayers, keeping that state aid where it was would have helped and we could have done more. But obviously we're now in a different situation and on a roller coaster. And so again, appreciating the effort in what you're doing and the Governor for acknowledging the problem, we do appreciate that. But it's...we don't think that this is the solution. [LB958]

SENATOR GLOOR: Okay. Senator Sullivan. [LB958]

SENATOR SULLIVAN: Thank you, Senator Gloor. Thank you for your testimony. What's happening with your enrollment? [LB958]

JOHN WORTHING: Enrollment is...we're up a little bit. [LB958]

SENATOR SULLIVAN: You are? [LB958]

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JOHN WORTHING: Yeah. I mean we do have...the little bit of state aid that we are getting is, \$46,000, is coming from option enrollment. So we are drawing in a few kids. And obviously we have the advantage of being relatively close to Kearney and so there's a population base. One of our neighbors, Amherst, does really good at...and they get a lot of state aid from the option enrollment that they get. Obviously seeing that, we'd like to try to work that way too. But to have that big of a drop-off in one year, we can't make that up in one year. And getting a bus of 80 kids from Kearney is not going to solve our problems. [LB958]

SENATOR SULLIVAN: As you indicated, you've done a really good job of keeping your budget from growing. So the limitation of a 2.5 percent limit on your budget authority wouldn't crush you, would it? [LB958]

JOHN WORTHING: It's not about whether it would crush us but like what we're dealing with right now of how to manage things and having to have options for what we can do at the local level. If there's people and patrons in our district that have a problem with what we're doing, they come and tell us. I get phone calls. I get people knocking on my door, as you guys know because you deal with that, too, at what you're doing. And so...and that comes with the territory. I'm not saying that's a bad thing. But if there's a problem at the local level, we'll get the "throw the bums out" thing coming down the pike and, you know, a new board member will be in there doing something different. And so I...if it's a free market thing, that it will take care of itself, but I guess that's kind of where I can say from where I'm at in Elm Creek and what our district deals with. [LB958]

SENATOR SULLIVAN: Do you know what, on average, percent increase that your ag patrons have seen in their property taxes? [LB958]

JOHN WORTHING: It's been dramatic. I would say it's been about 15 percent a year. And that's...you know, we were seeing reductions in our state aid in accordance with that, which we expected. And so again, it shifted from state aid to our needs going to the taxpayer locally. And so, yeah, now we're dealing with that again as to how do we keep what we have for programs and offerings without slamming our property owners. And it's a...as you know, it's a tough spot. And so we're going to do the best we can, but concerned that this would...just in raw numbers how it would have affected us this year, it would have been another \$400,000 gap potentially in what we brought in if that 65 percentage point was there instead of 75 percent. And so how do we make that up? Well, we end up...now we have to bust levies, or do we get rid of the school? A lot of severe things that we don't want to have to go down if we don't have to. [LB958]

SENATOR SULLIVAN: Thank you. [LB958]

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SENATOR GLOOR: Senator Brasch. [LB958]

SENATOR BRASCH: Thank you, Chairman Gloor, and I want to thank you as well for coming here. Your testimony has been very kind. I'm listening to your words of compassion and asking for understanding, which we do understand. However, what is coming to my mind is when asked about property tax increases and you said it was substantial. And about how much did you say it's increased on...? [LB958]

JOHN WORTHING: At least 15 percent a year for the last three years, so, yes. [LB958]

SENATOR BRASCH: Okay. If that was an increase to income tax in your area, what would you think would happen? [LB958]

JOHN WORTHING: Well, the same thing that's happening now: People are up in arms. [LB958]

SENATOR BRASCH: Perhaps to a greater degree? [LB958]

JOHN WORTHING: I don't know. [LB958]

SENATOR BRASCH: Because of that? [LB958]

JOHN WORTHING: Potentially. It affects more people. It could, yeah. But I guess, you know, like I said, I know there's no easy solution. It's just more of about, again, the painting with the same brush. [LB958]

SENATOR BRASCH: You think it would be easier to stay within a 3 percent and to look at all of this if it was affecting,... [LB958]

JOHN WORTHING: If everything else was static. [LB958]

SENATOR BRASCH: ...say, 1.9 million people instead of the number of the ag community. It probably would affect everyone differently, wouldn't it? [LB958]

JOHN WORTHING: Right. It could, sure. [LB958]

SENATOR BRASCH: It could. [LB958]

JOHN WORTHING: Yeah. I mean obviously the way we'd like to deal with the problem is growing our district, of growing people to come into the district, to have more homes built. I think every school wants that for their...and having those opportunities. But we...again, so we need a viable school that's going to attract families, that's going to attract businesses, to say that we have kids, we have Ag Dryer which is a vibrant business within our community that employs a lot of people. We want to be able to give them students that are going to be good employees. And so... [LB958]

SENATOR BRASCH: And we agree. [LB958]

JOHN WORTHING: Yeah. [LB958]

SENATOR BRASCH: A bigger tax base would help. [LB958]

JOHN WORTHING: Absolutely. [LB958]

SENATOR BRASCH: But it does not correct the... [LB958]

JOHN WORTHING: Everything. [LB958]

SENATOR BRASCH: ...property tax ag land situation because we're still looking at a disproportionate amount of taxes being taken from there is what I'm hoping you would agree with. [LB958]

JOHN WORTHING: No, yeah, we definitely agree. It's just a concern that hindering the ability of the local district and the local boards to effect change desired by that local entity or the local district because of a mandate from the state. And so it's just how do you balance that out, the needs of and the wants of the district or the community versus the overriding pressure that you're feeling on the state level from people that are calling you. And I totally get it. I just don't...I'm concerned this isn't the solution. [LB958]

SENATOR BRASCH: Okay. Thank you for your testimony. [LB958]

JOHN WORTHING: You bet. Thank you. [LB958]

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SENATOR GLOOR: Senator Sullivan. [LB958]

SENATOR SULLIVAN: Thank you, Senator Gloor. I'd have to ask then, what is? [LB958]

JOHN WORTHING: I wish I knew. (Laughter) I really wish I knew. And that's...you know, you've heard lots of things today in this long session of this hearing. But I don't know that there is an easy solution. And it's unfortunate that...like I said, I think it's more about the local districts being able to define for themselves what they want to be and what they need for their communities. And then if it is a problem or if there is enough people in that district that say, where the heck are you going, school board, or you're not doing what we need and we don't want the school anymore because you're going crazy on what you're taxing us, they're going to tell us. And they're going to make an effect on us either by kicking the board out or making a change at the local level where, like I said, my personal belief is where it needs to be. [LB958]

SENATOR SULLIVAN: So I guess that underscores what I assume what I assume is your emphasis on local control. [LB958]

JOHN WORTHING: Correct. [LB958]

SENATOR SULLIVAN: Rather than the state assuming more responsibility. [LB958]

JOHN WORTHING: Correct. [LB958]

SENATOR SULLIVAN: Okay. Thank you. [LB958]

SENATOR GLOOR: Senator Davis. [LB958]

SENATOR DAVIS: Thank you, Senator Gloor. How long have you been on the board, sir? [LB958]

JOHN WORTHING: Eight years, and then two years in Venango, Nebraska, where my school that was there has closed due to a variety of things. So I've gone through...I was on the board when that closure happened, and I never want to have to go through that again because it totally decimated my hometown of Venango. [LB958]

SENATOR DAVIS: Senator Hughes's home, of course. [LB958]

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JOHN WORTHING: Yes, yes. I know Dan well. So yes. [LB958]

SENATOR DAVIS: So I'm trying to just drill down into this because I think I know what the problem is. You've seen this property tax increase in dollar terms of 15 percent per year. In the eight years you've been on, do you know what reduction has been in your TEEOSA funding? [LB958]

JOHN WORTHING: Our state funding? [LB958]

SENATOR DAVIS: Um-hum. [LB958]

JOHN WORTHING: Where it started from when I first came on to where it is now? Yeah, so we're...we went up, our funding increased there for a couple years when I first got on the board and started at about, I want to say it was about \$900,000. It got to a high of about \$1.4 (million), and then dropped to \$800,000 this current year. And the next year it's going to be, in essence, well, \$46,000 is what it will be. And so, you know, a little bit of a roller coaster. [LB958]

SENATOR DAVIS: So when you're...so the only alternative you have short of cutting staff and closing buildings is to raise the property tax... [LB958]

JOHN WORTHING: Right. [LB958]

SENATOR DAVIS: ...in order to meet those needs. [LB958]

JOHN WORTHING: To fill the void and to maintain what we're offering, absolutely. And again, we don't want to have to do that. But in knowing that you have 250 other districts all crying for money, too, and that it has to go somewhere based on a formula, we get that. And so it's in our ability to handle it based on valuation increases, is our ability or is it just that we're hammering our farmers? You know, I...it's a little bit of both. And so to balance that out, I don't...like I said, I know there's not an easy answer. But I think the folks on the local level will make those calls as need be. [LB958]

SENATOR DAVIS: Thank you. [LB958]

SENATOR GLOOR: Senator Schumacher. [LB958]

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SENATOR SCHUMACHER: Thank you, Senator Gloor. Thank you for driving in from Elm Creek and testifying here today. So basically in the last three years there's been a 45 percent increase in ag land property wealth accompanied by a similar increase in tax. When that happened, are you having people show up at your board meetings, your budget meetings and ready to stone you or...? [LB958]

JOHN WORTHING: No. I mean there's always people that are concerned that want...I would say a common drumbeat from our district and we kind of take...have as a philosophy as a board is don't ask for it unless you need it. And we've tried to follow that to the point where we haven't set it...grabbed a penny of levy to put a rainy day...we have \$350,000 in a reserve fund. And compared to some of our neighbors and to what we're told is where we should be is woefully inadequate. And based on what we're dealing with now, we're wishing we would have had \$1 million socked away and that maybe we should have taken that extra penny before. But again, trying to be respectful to the taxpayer, trying not to go overboard when we don't have to, and then come back to them when it is a need and when it is an emergency and say, we lost \$750,000 in state aid. We have to make a change now. And can you, will you support us in what we want to do, or will you say no and now we've got to decide whether we're going to cut staff, cut programs, and limit ability for our students? [LB958]

SENATOR SCHUMACHER: Thank you. [LB958]

JOHN WORTHING: Yeah. [LB958]

SENATOR GLOOR: Thank you, Mr. Worthing. We appreciate your testimony. [LB958]

JOHN WORTHING: Thank you. [LB958]

RODNEY STORM: Good evening. [LB958]

SENATOR GLOOR: Good evening. [LB958]

RODNEY STORM: (Exhibit 37) Senator Gloor, members of the committee, my name is Rodney Storm, R-o-d-n-e-y S-t-o-r-m. I'm the city administrator for the city of Blair, Nebraska. I'm here to testify in opposition of LB958. And I think they're passing out a copy of my comments, so I'm not going to bore you with that. I'm sure that will put you to sleep. And if it does, Senator Brasch will inform you tomorrow of what all I had to say. I'm going to center my comments primarily just on two or three items due to the hour and so forth. Our concern is the effect that the limits this bill would have on the growth of our communities, on the effect of us to be able to partner

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with the state of Nebraska to help grow industry, grow new investment and jobs for the state of Nebraska. City of Blair over the last 20, 25 years has been very successful in economic development. We've been able to create over \$2 billion worth of investment to the state through the biocampus and other small developments. The city has been an active partner with that. Our concern is how we're going to partner if we have the lids. In the past what we've been able to do with some of these major projects is we've been able to, lack of a better term, save up. And then in one particular year you'll have a large expenditure. Under this bill, that ability to do that goes away. It doesn't give us the flexibility that we need to be able to make those partnerships. The Novozymes project, which brought in \$150 million in investment and over a hundred jobs to the state, we saved for that essentially for three years or almost four years, while they were completing the project because under our LB840 program, we focus it a lot like you do in the state. You don't get the benefit until the project is completed and operational. So when that project became operational, we cut them a check as part of our investment working with DED and then-Governor Heineman for \$800,000. With this bill, we don't feel we would have had the ability to do that. We wouldn't have had that capability under the spending lid to accomplish that. Our concern is for how we're going to grow our community for housing. Blair is not Sarpy County and it's not Douglas County. We don't have the developers that can develop large tracts of land. We have to partner with them. We build the infrastructure. We assess that. We bond that. Those aren't voter approved, but those bonds are backed by the assessments. And when those assessments are paid off, then the bonds are paid off. With this bill, that's going to limit our ability to do that. We think it's going to hinder future growth for both residential and commercial development. In summary, we think that this bill will put a number of communities in Nebraska where we will not be able to participate with the state in economic development and in building infrastructure for the state. With that, I'd be happy to answer any questions. [LB958]

SENATOR GLOOR: Thank you, Mr. Storm. Questions? I don't see any. Thank you. Thank you for your patience waiting today. [LB958]

DON WESELY: (Exhibit 38) Thank you, Mr. Chairman, members of the Revenue Committee. First off, thank you for...well, my name is Don Wesely, D-o-n W-e-s-e-l-y, representing the cities of Lexington, Kearney, and Hastings. Very briefly, thank you for your time. Thank you, Governor, for staying the whole time. I'm impressed and appreciate it, and for all of you to be here. All I'm going to say is that these cities oppose this bill. I've worked with these cities over a number of years. They're good people. They work hard. And the thing, if I've learned anything from being in the Legislature and being mayor at the local level, if we feel the pressure on property taxes here in the Legislature, in the Governor's Office, can you imagine the pressure on property taxes for those local subdivisions? They feel it every day. When I was mayor there was just no way we were going to raise property taxes. People were too mad. These folks are not going to raise property taxes unless it's essential to what they see as the best policy for their level

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of government. So I think this is not a good piece of legislation, but the issue is important and I think all of us will work with you on it in the future. Thanks. [LB958]

SENATOR GLOOR: Are there questions for Senator Wesely? Senator Schumacher. [LB958]

SENATOR SCHUMACHER: Thank you, Senator Gloor. Thank you for your testimony today. There's raise property taxes and raise property taxes. You can hold the levy and still raise a whole lot more money. So what...that's the core of the problem that we're dealing with, you know, the political spin of, we didn't raise taxes, we just got a whole lot more money. [LB958]

DON WESELY: And you're right about that because there's the property taxes raised and there's the levy that you set. And Lincoln has benefited from increases in valuation, that's true. But our levy has lowered from about 40 down to, well, when I was mayor it was under 30, it's back up a little bit above that. So there has been some decreasing in mill levies over time. [LB958]

SENATOR SCHUMACHER: Thank you. [LB958]

DON WESELY: You bet. [LB958]

SENATOR GLOOR: Senator Brasch. [LB958]

SENATOR BRASCH: Thank you. And thank you, Senator Wesely, Mr. Wesely, and Mayor Wesely, and I think there's many other hats you've worn. One thing that I have tried to bring into the picture here is, would you agree that the increase in ag land values is unprecedented in the history of the Legislature, the state of Nebraska? [LB958]

DON WESELY: Sure seems like it. [LB958]

SENATOR BRASCH: Is that a yes? [LB958]

DON WESELY: Yeah, it seems like it to me, yeah. [LB958]

SENATOR BRASCH: It does and I believe it truly is. And this is where we're probably looking for unprecedented solutions and a step. And as I'm speaking to individuals here, the state wants to stay within a 3 percent budget. We will do that. We must do that because it's the taxpayers that will pay the brunt of it if we don't. And at this point, agriculture is paying the brunt of unprecedented tax increases. So what would you propose? [LB958]

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DON WESELY: Well, first off, the 3 percent limit has been accomplished this last budget cycle. It is not in law. It has not been the case for a period time. So if you want to pass a 3 percent limit on local subdivisions, it should be in law for the state and then suffer the consequences equally. So I don't think that's a good comparison, Senator. And the second thing is in terms of the ag land issue, punishing cities doesn't help that situation. We don't tax ag land. So I don't want to throw the other subdivisions under the bus. We're all in this together. But I'm suggesting...I don't know the solution here but I can tell you I've been around this a long time and... [LB958]

SENATOR BRASCH: Oh, absolutely. [LB958]

DON WESELY: ...it's just constant effort, it really is, to try and find ways. I was around when we adopted the legislation you're amending. And we spent a lot of time on this issue trying to get it right. And it's worked, I think, fairly well now for 20 years. We still have problems with property taxes obviously. But you know, again, big problem, going to need a big solution and I don't have it for you. [LB958]

SENATOR BRASCH: And I think we just can't afford to turn a blind eye to it... [LB958]

DON WESELY: No, you can't. [LB958]

SENATOR BRASCH: ...is where we're reaching out to the cities, we're reaching out to the counties, and we're not asking of you anything that we're not willing to try to do. [LB958]

DON WESELY: But that's not true. [LB958]

SENATOR BRASCH: Where...okay. [LB958]

DON WESELY: That's not true. [LB958]

SENATOR BRASCH: It's not? Okay. [LB958]

DON WESELY: I just said if you believe that the sort of limitations you want on the subdivisions is what you should be doing, you should introduce a bill and it mirror this legislation at the state level. That's not what's being proposed here. This is just affecting subdivisions. Voluntarily you have adopted a budget currently. That hasn't been the case in the past and it's not law. [LB958]

SENATOR BRASCH: Very good. All right. Thank you. [LB958]

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DON WESELY: You bet. [LB958]

SENATOR GLOOR: Thank you. [LB958]

DON WESELY: Thank you. [LB958]

SENATOR GLOOR: Next. Good evening. [LB958]

JON HABBEN: Good evening. Senator Gloor, members of the committee, my name is Jon, J-o-n, Habben, H-a-b-b-e-n, Nebraska Rural Community Schools. In the past, when we testified on 75 to 65-type legislation, we testified in the neutral, acknowledging the problem but wondering what kind of a solution it was really going to take. I essentially am testifying against LB958 because I do believe it's a solution that recognizes a problem but doesn't have the broader picture in mind. Spending in Nebraska since '03-04 for Class A schools averaged 4 percent, for B schools it averaged 5.6 percent, for C schools it averaged 4.1 percent, for D schools it averaged 4.2 percent. That was the spending. But when you go to look at the taxes in many of those districts you do see that significant increase in taxes; there's no question. What you've been asking, Senator Brasch, in my opinion, is very true. This is an amazing circumstance that's happened since '07-08 regarding ag land values and ag land taxes. But I don't think that spending picture is the piece of the story that matters. I think in the 120 school districts who started losing their TEEOSA in '07-08 and may...and those 120 districts lost it all, and others are continuing to lose pieces of it. There, to me, is the connection, is you have spending on whatever this average is, and you have some outliers. This year we did this so we were clear up here. But then a couple years later we may be clear down here because we didn't have to do that. But the combination for rural districts is a heavy responsibility on local school districts trying to figure out how to navigate this water when one resource has been leaving and the replacement available is that local property tax, which in many of the districts we represent is obviously ag land. So I think we have to draw that connection between those two elements as opposed to the generalizations that spending is going nuts because I don't believe it is. I don't find that in the trend lines. And quite honestly, the school districts aren't loading up on reserves. Half of the school districts in the state are at less than 50 percent of their reserve capacity. So, in any case, I'll stop. You've got a lot more to do tonight. Thank you. [LB958]

SENATOR GLOOR: Mr. Habben, I would say this. And I tried to make mention, I emphasize it heavily in my opening comments, but during the joint hearings between the Education and Revenue Committee, one of the things you didn't hear was that we felt spending in schools or government entities was out of control necessarily. What you did hear is that if we were going to provide additional state dollars, we had to figure out ways to make sure that those dollars didn't disappear into operating budgets. If what we were looking for was actual dollars that found their

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way back to property taxpayers, there had to be something that was on the spending side of things. And the reason is history. Back when state aid in the mid '90s, I think, there was an influx of a lot of state dollars. It found its way to property tax relief initially. But within about three years, as I recall, it went back up again. Expenses went right back up again. And so therein lies I think our predicament of providing more dollars, whether it's...if it's just straight increase in state aid to education, runs a risk of not really getting the property tax we're looking for. [LB958]

JON HABBEN: And I think that's why you are hearing combinations of things, that if dollars are going to be put in that are directed across the rest of the state, that somehow they have to find their way toward property tax relief, whether that's a direct trade-off or whether it's indirect. But yes, I heard those same things and I think that's a...it doesn't surprise me I think for two reasons. One is sometimes you can get into a certain amount of cynicism that if you give them money, you know what they're going to do with it. And on the other hand it's a, but we have to be responsible for these additional dollars we're putting in that direction. Completely understand that. [LB958]

SENATOR GLOOR: Okay. Senator Sullivan. [LB958]

SENATOR SULLIVAN: Thank you, Senator Gloor. Thank you, Jon. And said another way, basically spending, you've said, has stayed flat. It's just that in about two thirds of our school districts they're supporting their spending totally on the backs of property taxes. [LB958]

JON HABBEN: Yes. Yes, that's exactly how it's flipped, yes. [LB958]

SENATOR GLOOR: Senator Schumacher. [LB958]

SENATOR SCHUMACHER: Thank you, Senator Gloor, and thank you, Jon, for testifying. [LB958]

JON HABBEN: Sure. [LB958]

SENATOR SCHUMACHER: But the state finds itself in a rock and a hard place situation, too, because in order for us to make funds available to augment those property taxes, we've got to get them from somewhere. And we're up against a practical limit, some say too high, on income taxes, a practical limit on sales taxes, and we've got these hurricanes on the horizon that we're going to have to spend big money on. So if it was just as easy as saying let's give you a little state money and we'll solve the problem, that would way too easy. [LB958]

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JON HABBEN: Well, and that kind of goes back to that question. Let's say that 4 percent trend line, you decide that that's not the trend line you want to see continued. Well, that's a discussion. And you can imagine a school district coming to you and saying, oh my gosh, if you reduce that trend line, this is the list of difficulties we're going to have. You can expect that discussion. But yes, you're right. I mean the state obviously has limits to its resources. There are times when I wish I could go back many years and say, okay, let's talk about all these things that were exempted from sales tax. Maybe they're right, maybe they're wrong. I've been told the uniformity clause prevents us from saying those services right there that are not currently subject to sales tax, let's put a 3 percent sales tax on those transactions. I mean there's all kinds of those discussions about how we might increase the revenue to the state. But at the same time, everybody in this state understands that you have to operate a balanced budget with the revenues that you bring in. I don't think anybody questions that. [LB958]

SENATOR SCHUMACHER: Thank you. [LB958]

SENATOR GLOOR: Senator Brasch. [LB958]

SENATOR BRASCH: Thank you, Chairman Gloor, and thank you, Jon. The Nebraska Rural Schools Association has been a great advocate for rural communities and the schools. But I do have a concern. And as you mentioned, you were neutral on 75 to 65. It was a, nah, not good enough; won't do it. And for a short window of time there, we saw people returning back to our communities. And now they're wondering, maybe I made a mistake because of the tax shift. And it's a huge, huge burden, it truly is. And you'll learn that more and more if you haven't already heard it. And so now you're saying, well, this isn't going to work. And I think you're shrinking your base of your constituencies, your schools by not helping us bring more kids back home to farm and... [LB958]

JON HABBEN: Well, in isolation, this bill, in its isolated form, I think there's more to this package... [LB958]

SENATOR BRASCH: Okay. [LB958]

JON HABBEN: And I don't disagree that...in fact, I agree. The issues of ag land tax increases have been significant. And I have been making the case for four years now that, as I talk to school districts, folks, if you haven't started losing yours yet, it is probably in a year or two and you will have to raise your local ag land taxes if you wish to stay in the same circumstance you are at today, not even mentioning growth. And so that...I mean, we've been talking about that for some time, warning our school districts that you have to get prepared for this. I mean, it's not going away. And as long as the other factors stay exactly as they are, it is what it is. [LB958]

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SENATOR BRASCH: And our population grew just a slight part of a percent, not even a whole one, the last ten-year census. And so when you're talking about growth, I can't imagine that when you're telling people you're going to need to raise property taxes, that that's going to promote growth. I think keeping one more dollar of tax money in your pocket will bring growth. [LB958]

JON HABBEN: And I don't disagree with the philosophy of holding on to money so that you have the ability to spend it or generate your business. I don't disagree with that. But I do think part of this discussion, when you begin to talk about the viability of rural, you've got to have good schools. [LB958]

SENATOR BRASCH: Oh, absolutely. [LB958]

JON HABBEN: You've got to have good schools. And that's what these local boards are trying to maintain as best they can. And doggone it, it just seems like they have no place to go but that local property tax, which in these cases is mainly ag land tax. And if it's a district where 80 percent or 90 percent of the valuation is ag land, there's no place to balance that, the way that tax falls on them. I mean, it's...I hate to say it is what it is, but that's the facts. And that local board working to maintain that local school is a critical element in doing the best it can. And I'll...I've heard this question asked. Well, did anybody come to your board hearing for your budget? Nope. I will bet you in every one of those places that when those board members went out for supper or they went to a wedding, maybe even a funeral, or wherever they happened to be--I mean can you imagine the board member that has a store on main street--these board members, they hear all about this. And they may get every negative comment and every concerning comment and still have nobody come to a budget hearing. You know, there's no question in my mind that these local boards are doing the best they can. [LB958]

SENATOR GLOOR: Senator Davis. [LB958]

SENATOR DAVIS: Thank you. Thank you, Jon. Appreciate your testimony. Several of the things you said I had to chuckle at, the last one being about nobody showing up. Because when I was board president at Hyannis I used to call people and say come here and talk about it here; I don't want to hear about it at the gas station. (Laughter) [LB958]

JON HABBEN: There you go. [LB958]

SENATOR DAVIS: Do you have...how many schools are involved with NRCSA? [LB958]

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JON HABBEN: One hundred ninety school districts and ESUs; I think about ten of them are ESUs. [LB958]

SENATOR DAVIS: And I'm sure maybe you have an idea, how many of them are levying at \$1.05? [LB958]

JON HABBEN: Oh gosh. I used to have that number in my head, but I don't now. I can tell you that all of the nonequalized districts are probably members, maybe with a few left out. We do have districts that...you can look at Bayard, for example. And Bayard--this is an interesting circumstance--they have tried to keep their levy down. I think they're at \$1.00 or \$1.01 or something like that. And they've worked really hard at it. In fact, they've worked so hard at it they've put themselves in jeopardy because they wouldn't levy the extra penny or two to build their necessary cash reserve. I mean, that's kind of like over-trying I think. But those things happen as well. [LB958]

SENATOR DAVIS: And we're getting into school finance a little bit. [LB958]

JON HABBEN: Sure. [LB958]

SENATOR DAVIS: But some of the modifications that took place in the discussion in the summer was to try to remove the minimum effort and some of those things to, you know, see if...is that going to play a big part in fixing some of this problem, do you think? [LB958]

JON HABBEN: You mean like removing the minimum? [LB958]

SENATOR DAVIS: Because some people do...we're on the cusp and as an old board member I went through this whole phase of do we levy what we need to do in order to get state aid, or do we not do that? [LB958]

JON HABBEN: Yeah. [LB958]

SENATOR DAVIS: How do you envision that? Do you think that's still an issue? [LB958]

JON HABBEN: Well, I think you're better off removing that minimum levy adjustment and letting that board do what it does in that business format, because when you don't do that you do have that circumstance. And we've seen it with all different size schools. But it's this idea of, my gosh, if I don't levy up I'm giving up this. So your business head says, well, we better levy up.

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Well, you know, if you really want to see that local board do what it should do, you take off the minimum levy and you let that decision be made unfettered. [LB958]

SENATOR DAVIS: And then the last question, you gave us percentages for the different classes of schools. The B schools were at 5.6 (percent); everyone else was around 4 (percent). Do you have any explanation for why the B schools went up so much in their spending? [LB958]

JON HABBEN: No, I really don't. And you have to understand in B there's a big range in that group of schools from the largest B to the smallest B. And that range is so broad that you have a number of rural Bs, and then you have Bs that are not rural. And they are different in that sense. [LB958]

SENATOR DAVIS: Okay. Thank you. [LB958]

SENATOR GLOOR: Senator Harr. [LB958]

SENATOR HARR: Thank you. And we are getting into school finance, but we have all night. (Laughter) How many--and I honestly don't know the answer and it kind of intrigues me--the minimum levy effort, how many school districts, if we were to eliminate the minimum levy effort, how many school districts would that affect? [LB958]

JON HABBEN: I don't know. I mean, I can get that information for you, but I don't know. [LB958]

SENATOR HARR: And then, yeah, approximately how many students that would affect. [LB958]

JON HABBEN: No, I don't, I don't. [LB958]

SENATOR HARR: Okay, cool. Thank you. [LB958]

JON HABBEN: I don't. [LB958]

SENATOR GLOOR: Thank you. Appreciate you testimony. [LB958]

JON HABBEN: Sure, you bet. [LB958]

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SENATOR GLOOR: And questioning. [LB958]

JON HABBEN: Thank you. [LB958]

SENATOR GLOOR: Mr. Harden. [LB958]

VIRGIL HARDEN: (Exhibit 39) Good evening, Senator Gloor, members of the Revenue Committee. My name is Virgil Harden, V-i-r-g-i-l H-a-r-d-e-n, and I'm executive director of business for Grand Island Public Schools here on behalf of GNSA and Grand Island Public Schools. The 26 school district members of the Greater Nebraska Schools Association strongly opposes LB958. This bill would, at a minimum, result in a tax shift that would not reduce but may in fact increase property taxes in many school districts. GNSA schools are for the most part at their levy limits and the effect of the 3 percent aggregate ag land valuation growth cap, if it had been in effect last year, would be the loss of nearly \$9.5 million for GNSA schools. Regardless of increased needs, revenue would be cut, programs would be cut, local control would be cut, but tax levies would likely not be cut. This is poor state policy and the wrong solution. A better solution would be to increase the state support for K-12 schools just as the Tax Modernization Committee recommended in 2013. So a few comments about Grand Island and our needs as a school district. In Grand Island, we have 68 percent of our student body who qualify for free and reduced price meals. But an even more telling percentage is that we have 57 percent of our student body that qualify for free price meals. Our needs are not decreasing. They are, in fact, increasing in critical areas like poverty, English language acquisition, mental health issues, behavior issues, families who are in crisis, in need of social workers and counselors, just to name a few of the areas of our needs. So then what about Grand Island's resources? Grand Island is the sixth-largest school district in the state, but outside of a few Learning Community school districts and Lincoln Public School, we're the third-largest consumer of state aid. In fact, in Grand Island, 60 cents of every dollar we spend is sourced from some state of Nebraska revenue stream, whether it be TEEOSA, SPED ed reimbursement, transportation reimbursement, etcetera. In Grand Island, we have maximized our poverty and LEP allowances and in the last 15 years we've maximized our \$1.05 levy limitation for the needs of our children. So the Grand Island valuation growth over the last seven years has been 2.57 percent. Grand Island has less than .5 percent of ag valuation in our almost \$3 billion worth of valuation. So, if LB958 would go into effect, Grand Island might lose around \$100,000. The issue is that we will not be able to replace those lost dollars with any other revenue. So the fact is a direct reduction in funding to one of Nebraska's most needy school districts. A secondary impact of LB958 would be to severely limit local resources, increasing the pressure to redistribute limited TEEOSA tax dollars through "disequalizing" mechanisms like foundation aid. So in conclusion, for Grand Island and other GNSA schools, LB958 does little to achieve the stated intention of property tax relief and is most likely to cause a shift in resources that does harm to the neediest of our children. With that, we would conclude our testimony. [LB958]

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SENATOR GLOOR: Thank you. Questions? Senator Davis. [LB958]

SENATOR DAVIS: Just a clarification question, and thank you for coming. [LB958]

VIRGIL HARDEN: You bet. [LB958]

SENATOR DAVIS: You talk about your small percentage of ag land but you say you would lose \$100,000. [LB958]

VIRGIL HARDEN: Correct. [LB958]

SENATOR DAVIS: And that's because of the valuation reduction? [LB958]

VIRGIL HARDEN: That would be the estimate that we put together with the effect of the bill. So, yeah, we would lose because, even though it's such a small portion, it would still have that effect on us. [LB958]

SENATOR DAVIS: But because of the way the formula works, you're a heavily equalized school, it could be state dollars that come in to make that whole, correct? [LB958]

VIRGIL HARDEN: If you increase the TEEOSA resources, it could. [LB958]

SENATOR DAVIS: I mean, because your resource side would go down which increases your need. [LB958]

VIRGIL HARDEN: It could, but there's nothing that says it would. [LB958]

SENATOR DAVIS: Thank you. [LB958]

SENATOR GLOOR: Questions? Thank you, Virgil. [LB958]

VIRGIL HARDEN: Thank you. [LB958]

SENATOR GLOOR: Good evening. [LB958]

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LIZ STANDISH: Good evening, Senator Gloor and members of the Revenue Committee. My name is Liz Standish, spelled L-i-z S-t-a-n-d-i-s-h. I am here representing Lincoln Public Schools where I serve as the associate superintendent for business affairs. I'd like to be very quick on the ag land issue. It's less than .5 percent of our property. The one story I would like to tell there is that in Lincoln Public Schools, at \$1.05, the maximum tax asking for general fund, which is where our board is, we have access to \$5,000 per student. So we heavily rely on state aid equalization to come in and provide for the education of our students. I would like to spend just a minute, and I'll be brief, on qualified capital purpose undertaking fund. We did, as school districts, want to make sure we brought that voice to the testimony today. That is a tool that school districts can use to address safety modifications, health hazards, and conditions in our schools--indoor air quality. In LB958, we interpret the reading to be that that 5.2 cents that school districts currently have authority to use to address those critical needs would require a vote of the people. And so you would incur the cost of the election for projects for the health and safety needs. You would also have the challenge of timing because you wouldn't want to go to a special election because that would be even more cost prohibitive. So we interpreted the changes to the statutes on bonds to mean all bonds, and that would be the 5.2 cents. That's something we would really appreciate you taking a look at. Lincoln Public Schools has used that fund in the past. Our school board has worked very hard. We have increased in the last ten years 22 percent of our student population. We've grown 7,400 students. We are at the \$1.05, but our overall levy has decreased \$0.07. So when we looked at our last bond issue, the board was very diligent on facility needs and we work really hard to maintain our buildings. And this is a tool, I think, looking into the future and forecasting 20 years ahead, we all want school districts across the states, children sitting in seats without stained ceiling tiles above their head. And I think taking care of school buildings across the state was of high value. So we just wanted to bring that forward, that based on our reading, which is not overly sophisticated, we felt that 5.2-cent tool for school districts to address safety needs and provide safe spaces for children was potentially at risk. [LB958]

SENATOR GLOOR: Thank you, Ms. Standish. Questions? I don't see any questions. Thank you. [LB958]

MICHAEL GOODWILLIE: Good evening, Senator Gloor, members of the committee. My name is Michael, M-i-c-h-a-e-l, Goodwillie, G-o-o-d-w-i-l-l-i-e. I am with the Douglas County Assessor's Office, and before that I worked for the Department of Property Assessment Taxation back in the olden days. And I guess it's PAD now. And I am speaking in opposition to LB958 and would also like to take advantage Senator Gloor's gracious offer of a "threefer" and talk a little bit about LB940 and LB717 if you would be so kind. I think our opposition is from a basic policy standpoint that caps and freezes will muffle what buyers and sellers are telling assessors from an appraisal standpoint. And by way of clarification, there's not an assessor in this state that doesn't use a sales approach to value agricultural land, meaning the behavior of buyers and

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sellers when they strike a deal on the value of agricultural land is the most important factor. With respect to...and if you wanted more empirical information about what's been happening out there from the standpoint of selling prices, I would recommend you go to the Nebraska Farm Real Estate report from the Department of Ag Economics at the university. They will give you annually a breakdown of what ag land is selling for in different regions in the state, who's buying, why they're buying, whether the transactions are financed. It's helpful to kind of get a big picture of this. With respect to caps, I would commend you to the work of both OpenSky and also a gentleman named Alan Dornfest who's written at length for the International Association of Assessing Officers about the impact of caps. Essentially with caps you end up with some folks really benefiting from a tax standpoint, usually people who own high dollar value, high appreciation properties; the folks who are with lower appreciation properties maybe not so much. And in fact, depending on what happens on the levy side, they might actually end up worse off. The other issue with respect to LB958 that I wonder about a little bit is assessors are supposed to assess ag land between 69 (percent) and 75 percent of its market value prior to statewide equalization. If you are outside that range, the Tax Equalization and Review Commission will order a percentage increase or decrease to get you to the midpoint of the range. If I understand the way this program is going to work, you get yourself into that range and then later, depending on what that factor is, you're going...all the ag land in the state is going to come down by a certain percentage. And I can envision circumstances where you might have one county that's at 70 percent and another that's at 74 (percent), or even within a county you'll have different classes--grass at 70 (percent), irrigated at 73 (percent), dry at 74 (percent). And depending on the factor, you could have one county now outside of the range at the end of the whole process while other counties are inside the range. Or even within the same county you'd have classes and subclasses that were in and out of the range. I don't know if you should end up out of equalization by virtue of this. And my friend Ruth Sorensen, who I've known for a long time, assures me this is not a big deal. But I thought I would bring it to your attention. Let me briefly touch...I know my light is on but let me briefly touch on LB717 and LB940. [LB958 LB940 LB717]

SENATOR GLOOR: Go ahead. I'll have the clerk shut the light off. [LB958 LB940 LB717]

MICHAEL GOODWILLIE: I'll try and address them. Freezes have a real constitutional problem in terms of the provision of the constitution that requires uniform and proportionate valuation. [LB958 LB940 LB717]

SENATOR GLOOR: Now you're moving ahead talking about the other bills? [LB958 LB940 LB717]

MICHAEL GOODWILLIE: The other bills, yeah. And the constitution requires uniform and proportionate valuation. And the thing is that will happen with freezes is you freeze the value but the buyers and sellers don't care about your valuation freeze. They're going to continue to do what they're going to do. And what you're going to end up happening...having happen is you'll have some properties that do not appreciate particularly quickly in value. So that freeze keeps them right around what their market value is. You're going to have other properties that appreciate more rapidly and that freeze is going to hold that value down. And it won't take long before you have some folks, they may be the same kind of property but a different location, you may have some folks who are close to 100 percent of their market value in the case of nonagricultural land, or 75 percent in the case of agricultural land, and then other folks that are suddenly over time, depending on the appreciation, they'll be at 50 (percent), 60 percent of their market value for nonagricultural land, or they'll be well below 75 percent on ag land. And so you've got a real problem with uniformity and proportionality with the freezes. The other thing that freezes do, I think, if I'm understanding the subtext of some of the discussion over the last six hours, is that the ag sector feels overburdened with property taxes and I think they want residential and commercial taxpayers to pick up more of the load. Okay. But if you freeze value, two things are going to happen, okay? If you have commercial or residential property that's set to increase in value, that freeze is going to keep that from happening so that's going to prevent that extra value from getting into the mix. I talked to one of our real estate appraisers before I came down here this morning and she said, yeah, I think over the next few years you're going to see pretty decent increases in residential value in Douglas County. So a freeze is going to retard that. Conversely, Tom Placzek, the Platte County Assessor, testified earlier and he said that he was starting to see ag values in his county level off or even come down a little. If you freeze those values and value comes down, those people you're trying to help are not getting the help you're trying to give them. So I think there's some unintended consequences with freezes. The last thing I want to touch on is LB717 tinkers with the measurement process for level of value. But I think that, too, would skew things in a way to create lack of uniformity and proportionality. One of the features of LB717 is you would eliminate the low 20 percent of assessment sales ratios. What that would do is it would skew what you ended up with to make property look like it was assessed at a higher value than it actually was. Similarly, instead of three years worth of sales, now you've got five meaning some of those high-dollar sales are going to follow your level of value around for an extra couple of years. The upshot of both of those things is it's going to retard the ability of the assessor to have those values reflect what actually is happening in that marketplace. And that may not be...I mean, I understand from an ag sector, yeah, you don't want those values to climb. But what happens if, down the road, market conditions change? I'm old enough to remember the 1980s when you saw precipitous declines in agricultural values. I'm not saying going to happen, but I am saying that if you tinker with the measurement process you hamper the ability of that assessor to accurately value based on market conditions. And with that, I would take any question that you have of me. [LB958 LB940 LB717]

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SENATOR GLOOR: Thank you, Mr. Goodwillie. Senator Brasch. [LB958]

SENATOR BRASCH: Thank you, Chairman Gloor, and thank you, Mr. Goodwillie. I do remember you at the Revenue Department. And I think you worked in more than property tax. Were you also with Charitable Gaming? [LB958]

MICHAEL GOODWILLIE: I did Gaming for a while and then ten years with property taxes, yes. [LB958]

SENATOR BRASCH: Yes, I do recall that. And from working the Revenue Department, I know we have multiple taxes. We also have corporate income tax...corporate income, one point, fiduciary, I mean the list went on. I think we had nine divisions of all tax collection. And you said that farmers feel, or agricultures feel that they're being overtaxed. Well, they also pay income tax on top of their property taxes. They also pay personal property tax along with those taxes. And if any of those from working there, can you imagine what the phones would have looked like if someone paying a corporate tax or any of the others had their taxes go up even 15 percent every year, you know, what that would cause? [LB958]

MICHAEL GOODWILLIE: I guess the question I'd ask is, did their corporate income go up commensurate with that increase? I mean, if it just came out of nothing, yeah, I guess they would be upset. If, on the other hand, they had income to merit a 15 percent increase, additional income, then maybe they have... [LB958]

SENATOR BRASCH: If the tax rate... [LB958]

MICHAEL GOODWILLIE: ...then maybe they have less of a complaint. [LB958]

SENATOR BRASCH: And we're speaking a tax rate. If we assessed every year we rose that burden...disproportionate to their income even. But I just think that when it's not a feeling, it's a reality or the whole state wouldn't be... [LB958]

MICHAEL GOODWILLIE: Well, let me ask this question. [LB958]

SENATOR BRASCH: Yes, okay. [LB958]

MICHAEL GOODWILLIE: And like I say, it's helpful to look at the empirical information in that farm real estate report. But typically, 80 percent of the sales transactions are to existing

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farmers and ranchers. Okay. And the number one and two reasons for making those purchases at those exorbitant prices are either because, in the case of ranchers, livestock prices are increasing or, in the case of farmers, commodity prices are increasing. And then the second reason that's always at the top of the list for these purchases is to expand existing farm holdings. And yeah, you know, nobody wants to pay more than they have to add... [LB958]

SENATOR BRASCH: And, Mr. Goodwillie... [LB958]

MICHAEL GOODWILLIE: ...to add to their business. [LB958]

SENATOR BRASCH: Yes, um-hum. [LB958]

MICHAEL GOODWILLIE: But I heard proponents of the bill earlier talking about making business decisions. I guess I think their business acumen is such--I'm willing to trust their acumen--if they think they can net out...you know, if they're going to end up net-gainers, that it's going to help their business by buying land at these prices, well, that's what the market reflects. [LB958]

SENATOR BRASCH: And you left out that some of them have multiple families. It's a family farm. We heard a fifth-generation or fourth-generation farmer, that he may have other family member or she may have other family members and that's why they are choosing to acquire more land perhaps. There's all kinds of reasons. And it's just not strictly financial gain because farmers have... [LB958]

MICHAEL GOODWILLIE: Well, perhaps not. But nonetheless, those are the prices that are getting paid and that's where the values are coming from. [LB958]

SENATOR BRASCH: And they are being driven to pay that perhaps just by competition, lack of land, I don't know. But still, it's... [LB958]

MICHAEL GOODWILLIE: Okay. Well, that's what the market is. [LB958]

SENATOR BRASCH: Yes, but it is disproportionate to our other taxes that we ask of all citizens. The three-legged stool has now become a pedestal where on leg seems to be holding, you know... [LB958]

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MICHAEL GOODWILLIE: Well, what I do think is happening here is we're having kind of a surrogate discussion for how do we want to fund our local governmental subdivisions and how do we want to fund our local schools. My understanding from some of the earlier testimony, although it's probably beyond my pay grade, is that we're in the high 40s and we're waltzing around with people like Mississippi and Louisiana in terms of levels of funding. And I'm not sure from a public services standpoint that's company you really want to keep on a regular basis. But nonetheless, really that's part...I mean, that's really what this is a surrogate for, is it not? [LB958]

SENATOR BRASCH: Well, and we're talking about...and Senator Scheer brought it up earlier, maybe we need to look at, you know, if we are so short, cash strapped for municipalities or others, taxing your stocks and bonds, things like that. Why have one form of security taxed disproportionately than another? [LB958]

MICHAEL GOODWILLIE: Well, those are items that certainly the members of the Revenue Committee are in a position to contemplate. [LB958]

SENATOR BRASCH: You've been very kind. I have no other questions. Thank you. [LB958]

SENATOR GLOOR: Thank you, Mr. Goodwillie. [LB958]

MICHAEL GOODWILLIE: Thank you. [LB958]

SENATOR GLOOR: Appreciate you sharing your extensive background and knowledge with us. Thank you. Mr. Dix. [LB958]

LARRY DIX: (Exhibit 40) Good evening, Chairman Gloor. For the record, my name is Larry Dix, spelled L-a-r-r-y D-i-x, executive director of Nebraska Association of County Officials. Really hadn't planned to testify, but as the day wore on there was a couple of county officials that had other commitments and so I want to get their letters on record. These are from the Wayne County Clerk and the Seward County Clerk. A couple of comments and observations, I think we had excellent testimony here today. I think it was very good. I was glad to see that we could have some county board members here, some people that actually work with the budgets to try to help you. I would promise you that as we work through the process, those folks have committed to making themselves available to answer any questions that you may have. One of the things that's brought up time and time again, and I will go back and check, but I would venture to guess, I feel pretty confident, over the last five years I bet you will find 95 percent of the counties have lowered their levy. And I'm going to get you that information for the last five years. Historically

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I've always brought the information in, year by year of what counties have done. Last year I think we had 89 counties lower their levy. I'm willing to say if I look at five years, we're going to see 95 percent actually lower their levy. And so we know that there's been an increase in value. A couple of takeaways that I know I've got to get for you--it isn't just the levy. I'm also going to prepare the last five years of tax asking for those counties so that we can see what percent the tax asking is. I'm also going to look at the state budget and see over the last 5, 10, 15 years what was the percent that the state budget increased or decreased because I think that has been part of the conversation here. One of the things we look at from the counties as we move forward, we want to have stability in our tax base, we know we have to have some flexibility for things that hit us from time to time. Murder trials come to example. We're not going to budget on any type of a lid for murder trials. We've got to have flexibility to get outside of that. We didn't get here overnight. And, Senator Brasch, I think you had mentioned, you know, we maybe need to take baby steps. We didn't get here overnight. I've been here long enough to know that. And we're not going to get out of it with one big bill that just tries to solve all these problems. We're going to have to baby step in reverse and start to get ourselves back out of it. So with that, I look forward to working with the committee and trying to get you the information that you request. And I will get you the information that I stated. With that, I'd be happy to answer any questions that you may have. [LB958]

SENATOR GLOOR: And you'd like me to read these letters into the record as part of the testifiers? [LB958]

LARRY DIX: Please do, yes, just so that they know that they're on record. [LB958]

SENATOR GLOOR: Okay. Senator Sullivan. [LB958]

SENATOR SULLIVAN: Thank you, Senator Gloor. And just to clarify, Mr. Dix, and thank you for providing that information, particularly on the tax asking... [LB958]

LARRY DIX: Yeah. [LB958]

SENATOR SULLIVAN: ...because, yes, they can drop their levy but because of the increased value, they can bring in more money. [LB958]

LARRY DIX: Right, but I think what you're going to find, because we have increased values, you should see the levy go down. I mean, you do have increased value. And if you are dropping your levy, obviously you're not taxing the people more. Now the proof is in the pudding because if you have tax asking at 9 percent and you have so much excess value that you can still drop

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your levy that's one thing. But if you have tax asking that may be at 4 percent or close to what we're seeing inflation and then you're dropping your levy, I think you're probably doing what you should be doing. Over the years, I've got 435 county board members and I know them all. I don't think any one of them wants to raise property taxes. I mean these people are conservative people. I think I will be able to prove to you 95 percent of the counties have lowered their levy. They don't want to raise property taxes. It's just that, quite honestly, we have services we have to provide year after year. The other thing I am going to get you now that that brought up, I'm going to get you a list of bills that would be unfunded mandates that come down that we know that are just in...probably just that have been introduced in the last...in this session. And just to show you nobody, when they introduce them I don't they're really thinking it's a big unfunded mandate. It may be a little dollar amount. But when you take them all together they tend to start to add up. So I'll get that for you also. [LB958]

SENATOR GLOOR: Senator Harr. [LB958]

SENATOR HARR: Thank you. And thank you, Mr. Dix, for coming. And I like to spread the blame around. It's not just the Legislature that creates these unfunded mandates. For the record, yesterday we had the volunteer firefighters in here and they do a great job and everything they do is wonderful. But they're looking for a tax credit and one of the reasons they're looking for tax credits is they're saying, hey, we have all these new rules and regulation. Where it used to require 80 hours, now we're required 150 hours. We are required to upkeep a certain level of equipment. We are required through rules and regs to fill out reports. And by the way, all those things are good. I mean, we get better care in our rural parts of the state. But there is a cost to it. So I guess what I would like to ask you is do you think when we fill out our fiscal notes or when fiscal notes are made on bills that we should not just include the cost to...well, it's a two part. Number one, when we make them, do you think we should include the costs to the counties when we do fiscal analysis on bills? And two, when rules and regs are being created, do you think there should be a fiscal analysis done for the counties as well when those are created? [LB958]

LARRY DIX: I do, and I would tell you that's going to be a tremendous task because sometimes on some of these it's hard to get the impact on all 93 counties because once you do it for the counties then you're going to have to do it really for the cities and every other political subdivision. But I think you've hit on something that's very, very important. And I would tell you that many, many of our unfunded mandates are federal government unfunded mandates. They just slide right on down. In many, many bills I would tell you even NACO testifies to that we think are good ideas because they promote things that we should be promoting, that in the end, end up being unfunded mandates. That's what happens because there are good ideas and we can't just throw out every idea that may cost a little bit of money. But it does...it's part of this...the partnership. And it's part of the partnership I know that Governor Ricketts has talked to our county officials about. That we have to work in this as partners. And we got...we have all the

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same taxpayers. But I do agree. We do need to look at fiscal notes a little bit more closely.
[LB958]

SENATOR HARR: So let me ask you this then because I think Mr. Goodwillie hit the nail on the head with the comment that, you know, the subtext of all of this is about what is the relationship between the state and its political subdivisions? And we do a great job of telling you what to do and maybe not a great way of funding you. Do you think we should give you authority to collect income or sales tax so that we aren't so reliant on property taxes. [LB958]

LARRY DIX: Senator Stinner has talked to me a number of times. There are some folks in the western part of the state that, in one county specifically, that would love to have sales tax, the possibility of a countywide sales tax. There are counties that would say...earlier today we had Mr. Post here from Banner County. If we only have a countywide sales tax in Banner County, they're not going to collect any sales tax. So it would have to be a piece of or an overlay of the state sales tax base. [LB958]

SENATOR HARR: Okay. Thank you. [LB958]

SENATOR GLOOR: Senator Davis. [LB958]

SENATOR DAVIS: I like to spread the blame around, too, Larry. It's all Burke Harr's fault. (Laughter) So I think this is a great idea, what you talked about. Of course, the question I come down to is within those county budgets and levying authority there are a number of other entities. Are you going to just cast all those aside and this will only be what the counties are asking for? [LB958]

LARRY DIX: The information that typically I would be able to gather is going to be just county, just the county. We'll look at just the tax asking for the counties. We will not get into ag societies, townships, fire districts, any of the others that are within that range. I do believe that information is available at department...I don't want to throw Ruth under the bus by any means, but I think some of that information is available up on the Property Tax Division's Web site. And that's probably the first place I'm going to go also. [LB958]

SENATOR DAVIS: Sometimes we're all drowning in information, we just don't know where to access it. And so the countywide sales tax, there is already the ability to do that but it would only be in unincorporated portions of the county, isn't that correct? [LB958]

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LARRY DIX: Anywhere outside of...if there's already a city sales tax, we cannot enter into that area. A number of years many of you remember Senator Hudkins. Senator Hudkins introduced that bill. We've introduced that bill numerous times but never really...we've never, ever got it out of Revenue Committee. [LB958]

SENATOR DAVIS: How many counties are using that sales tax? [LB958]

LARRY DIX: I believe there's one. And the issue of it is, that one, it was a joint interlocal agreement with the city to work on libraries and a law enforcement center. So it was sort of a joint measure. But the way the law is written right now, there just is not enough revenue to be gained to make much of a difference the way it's written right now. [LB958]

SENATOR DAVIS: And when those bills are introduced, is the League of Municipalities supporting or are they opposed? [LB958]

LARRY DIX: Well, I don't want to speak for the League, but I think in the past I think the League has opposed that. I think the...if I remember the testimony, some concern about if we go to that process, does that hinder their ability then to pass sales tax issues? And you know, the cities are partners with us in many, many things. And so when we look at it, we're going to have to look at it from a very broad picture, and primarily because of the instance I point at like in Banner County. We've got to look at it from a broader point than just individual county by county. [LB958]

SENATOR DAVIS: Thank you. [LB958]

SENATOR GLOOR: Senator Schumacher. [LB958]

SENATOR SCHUMACHER: Thank you, Senator Gloor. Just briefly, you mentioned a word that we haven't talked about today but that may very well play into all this, and that is the word "inflation." This particular 3 percent formula has no adjustments for inflation. I assume that you were around in the 1980s and active. [LB958]

LARRY DIX: I was. [LB958]

SENATOR SCHUMACHER: What happens when you see inflation that's substantial? What does that do to a budget and local government expenses? [LB958]

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LARRY DIX: Well, certainly it throws it completely well out of whack. And for those of you, many of you know me well enough, I was around in the 1980s and really working in this area. I think when this bill was introduced, even if we go back to newspaper reports, one of the first things that I stated was we have a cap, we also need to have a floor. Because if we hit the '80s scenario and values plummet like they do, if we don't have the floor, we have just in essence put political subdivisions in bankruptcy because of the situation that we did see in the '80s. We do have to, when we look at just arbitrary...and I don't want anybody to misinterpret the word "arbitrary." I don't know where the 3 percent number came from. I would assume there was a scientific study that said 3 percent is the right number. But when you look at this, it...in my mind, when you start to look at this, we tend to think of things of, is it so much above the rate of inflation or is it tied to the rate of inflation or some other economic factors that tend to fluctuate over time as opposed to just a flat cap. [LB958]

SENATOR SCHUMACHER: So if we have currency inflation, the expenses of everybody is going to go up at least equal to the rate of inflation. And then, as you pointed out, if we have an injection of deflation, there has to be something to protect against that or average it out. [LB958]

LARRY DIX: Correct. [LB958]

SENATOR SCHUMACHER: Thank you. [LB958]

SENATOR GLOOR: Seeing no more questions, thank you, Mr. Dix. [LB958]

LARRY DIX: Thank you. [LB958]

SENATOR GLOOR: (Exhibits 41-43) And while Ms. Rex is coming up here, I'll read into the record a letter of opposition from Deborah Finn, Wayne County Clerk; the Seward County Clerk Sherry Schweitzer; and then we also have letters in front of us in opposition from Virginia Moon with the Nebraska Council of School Administrators; Jason Hayes, NSEA; and Terry Julesgard, Lower Niobrara NRD. Ms. Rex. [LB958]

LYNN REX: (Exhibits 44-73) Thank you. Senator Gloor, members of the committee, my name is Lynn Rex, L-y-n-n R-e-x, representing the League of Nebraska Municipalities. And first, we'd like to thank the Governor for recognizing this issue as an important issue. His administration has inherited a number of challenges and problems and this happens to be one of them. That being said, we do oppose LB958. What I'm handing out to you is a copy of the municipal levy rates. And you have a yellow one which is done by virtue of by class of city, five classes of city,

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five forms of government. And one of them in the yellow is done with the highest levy rates coming first, so you can see going down which ones are the highest. The white one is done by class of city based alphabetically. So if you want to look up the cities in your own area. What you will see is that of the 529 municipalities in the state of Nebraska, that we have 233 of them and those 233 of the second-class cities and villages are at their maximum levy limit of 45 cents. Now as you know, after LB1114 passed in 1996, municipalities were required to go to 45 cents plus 5 for an interlocal agreement. But since the interlocal agreement is taken out of and would no longer be allowed outside of the lid under LB958, we thought the important verbiage here was the 45-cent limit. And so of the...if you look at this sheet. We have 497 second-class cities and villages; 233 are already at their maximum levy limit. And of those, over half of them we estimate can't even raise the 2.5-cent plus 1 maximum restricted lid levy that you allow them to have. So I'm mixing up words there, but essentially, with the lid on restricted funds, you have a lid of 2.5 percent with an additional 1 percent on a supermajority vote. They can't even raise that because they are so tight up against their maximum levy limit. And so with that, I can just assure you that...a little bit of background very quickly here with the light running is this: 1996, this committee was looking at what can we do? Jerry Warner was the Chair of this committee and he said there are some areas in the state of Nebraska that do not pay enough property taxes. There are some areas that pay too much. So we're going to level everything. We're going to put everybody in a leveling position so you have the same levy rate, a same uniform rate, maximum rate for everybody. And he put in place, this committee did and the Legislature passed it, LB299 which put in place what was supposed to be a two-year cap which was going to be a lid on restricted funds that was going to go away after two years because he did not want anyone artificially raising the amount of money. And then in 1998, that's when the levy limits when in. Every second-class city and village in the state of Nebraska was at \$1.05 percent \$100 of valuation, every one. Why? Because a firetruck, any number of little things, I mean, when you're looking at cities that small. They had to go, in two years, from \$1.05 to \$0.45. And folks say, wow, well, that must have been great. You had all kinds of consolidation. You had great things happening. That's when we lost most of our police departments in the state of Nebraska. Many of them couldn't even afford and can't now to even contract with the sheriff for law enforcement. These are the smallest of cities but they play a very important role in the state of Nebraska as bedroom communities. And municipalities are economic drivers--you've got the state of Nebraska...the University of Nebraska that is, agriculture is. So are municipalities because that's where the infrastructure is. That's where the people are. That's where businesses want to locate. So, I know that my red light is on. I would just close by saying that you've also handed out...I've handed out an additional 28 letters. Because of the storm, we had a lot of these folks who could not come. And I would appreciate, Chairman Gloor, if you would read into the record at the end, if you will, whenever you get a moment, these letters because they're from municipalities, municipal officials from across the state in opposition to this bill. Again, the most devastating elements of this bill would be, again, taking away the ability to put...to have outside of your lid budgeted amounts for capital improvements. That's critical for infrastructure and economic

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development. Secondly, the cash reserve amount or, pardon me, the sinking fund amount, if you will, because that's how, for example, what Mayor Marlene Johnson was saying from West Point. They would put money aside every year for the purchase of a firetruck, for the purchase of a sweeper without having to bond it. Otherwise, their only choice is to bond it. And of course, the third element would be the interlocal agreements. The part about the 3 percent carryover amount, unused budget authority, that will have a disparate impact. Just like 1996, if you happen to be a smaller city and you bought a fire truck right before those levy limits went into effect, you had a buffer for a few years, just like cities with this would have a buffer for a couple of years. If they had huge capital expenditures which are now going to be under their lid, but that's all put into a base year for FY '16-17. But once that's gone, then they're really limited and they cannot be in a position then to basically be economic development partners with the state of Nebraska and do the kinds of things that need to be done to grow this state. With that, I'd be happy to answer any questions. I hope you have some. I have a whole lot more to say. (Laughter) But it's a late night. [LB958]

SENATOR GLOOR: Are there any questions? Senator Davis. [LB958]

SENATOR DAVIS: A couple questions, Lynn. [LB958]

LYNN REX: Yes. [LB958]

SENATOR DAVIS: On your yellow copy on the second page, you have York at 6 cents on the general fund. Is that correct? And if so, how are these cities...and Scottsbluff at 13, Kearney at 12. [LB958]

LYNN REX: You're on page 2? [LB958]

SENATOR DAVIS: Yes, at the top. [LB958]

LYNN REX: Oh, yes. Yes. [LB958]

SENATOR DAVIS: Why are those cities so low? [LB958]

LYNN REX: Those cities are low because of the single most important thing that has enabled municipalities to have property tax reductions, and that's a local option sales tax. When I started with the League back in 1978, I believe there were four municipalities--Lincoln, Omaha, North Platte, and Bellevue--that had local option sales tax. Now we have well over 200. That is the single most important way in which they can do it. And these numbers, by the way, are right off

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of the Nebraska Department of Revenue Web site. And what my staff did was I just asked them, I'm not capable of doing it, (laugh) but I asked them to basically put it in alphabetical order for you by class of city, and then also another version which shows you those that are at the maximum levy all the way down. And you'll note that...and I think it's important to note that back in 1996 when the lid and levy limits went into effect, and again in 1998, even though the lid was supposed to go off, the Legislature decided to keep it. So there's a double cap: a lid on restricted funds plus the levy limits. The lid was actually supposed to go off. Sadly, Senator Warner passed away and that lid never went off and it just kept on. So where we are is that the largest cities in the state of Nebraska are dramatically impacted from a growth standpoint on the lid on restricted funds. That's really what ties them down. And if they can't have funds budgeted for capital improvements, if they can't deal with sinking funds, if they can't deal with interlocal agreements which again was an incentive in 1996 because Senator Warner and this committee said we want you working together with other political subdivisions. You don't need to build a library for the school, a library for the city. If you can do it together, do it that way--those kinds of things. And that's what's happened across the state. [LB958]

SENATOR GLOOR: Other questions? Seeing none, thank you for your testimony. [LB958]

LYNN REX: Okay. Thank you. [LB958]

SENATOR GLOOR: And I will, at end of the hearing, read in those letters. [LB958]

LYNN REX: Okay, thank you. And if I may just one...if I may just have the courtesy of one minor thing. [LB958]

SENATOR GLOOR: Briefly, please. [LB958]

LYNN REX: Okay. And that is that there's been a lot of questions today about what could be done, what could be done? And I'd reference page 15 of the Tax Modernization Executive Summary, item number 9. And what that says, I won't read it to you because of time, it's only like two sentences though, but what it basically says is the Syracuse Study in 1987 said to this Legislature you need to increase aid to local governments. You're rock bottom, 47th, even way back then in terms of aid that this Legislature provides to, the state of Nebraska, to local governments. That is the single most important thing you could do to deal with the property tax issue. This was also the conclusion number 9 of the Tax Modernization Committee as they reported to you in 2013 by the Revenue Committee when you went across the state of Nebraska and I had the pleasure of traveling with this committee across the state as well. So I would also indicate that one bill, just one, back in 1978 when the Legislature enacted LB518 which exempted totally then livestock farm equipment and business inventory, all legitimate

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exemptions, the commitment that was given to local government is we will reimburse you dollar for dollar so there's no shift over to property taxes. Then-Governor Exon said we can't afford that, so we capped it \$70 million. And as you know now, state aid is gone for municipalities, counties, and for NRDs. So with that, I have lot more to our sad, pitiful story but I realize that it's a late night and my time is up. [LB958]

SENATOR GLOOR: And we've had a lot of sad, pitiful stories today. [LB958]

LYNN REX: I know, sir. Yes, sir, you have. And again, we appreciate the Governor focusing on the issue. Thank you. [LB958]

SENATOR GLOOR: Thank you. Next testifier, please. [LB958]

JOHN HANSEN: Chairman Gloor, members of the committee, good evening. For the record, my name is John Hansen, J-o-h-n, Hansen, H-a-n-s-e-n. I am the president of Nebraska Farmers Union. We're the second oldest, second largest general farm organization in the state. We represent 4,000 family farmers and ranchers from across the state. And as tempting as it is to put on my NRD hat when I was Chairman of the budget committee or when I used to help put together my local Class I school district budget, I'm not going to get into the particulars of those things. But I would say that we do not live in a 3 percent world. And, yes, I have paid 17 percent interest and I've seen inflation well over 15 percent. And these things come and go. Senator Schumacher, you're correct. And so 3 percent does not allow for inflation and it will come back. But relative to the bigger picture of why we're landing in an opposition position as a farm organization is that I'm representing folks that are losing \$300 to \$600 a head right now on the fat cattle they sell. We have cow-calf guys that are seeing their income go down dramatically because of the decline in beef prices, and yet their property taxes continue to go up and they're being squeezed. We're three weeks away from March 1. Ag loans need to be in place. My phone rings. We have folks that do not cash flow now. And so we are in a terrible financial bind in the meat sector and in the grain sector. And the Governor's ag land valuation section, which I will spend more time on, it strikes us that if you were putting air in a balloon and the sales of ag land was driving them out of air going in the balloon, that the cap structure, the way that it is, keeps all of the air in the balloon when the balloon is already overinflated. And so it keeps that in there and then at the 3 percent rate, as I look at the tables, and maybe I'm wrong, but as I look at the tables over time, it seems like we correct too slowly, we don't do enough reconfiguring of the pull that we have had toward ag land valuations and K-12 funding combined for the one-two punch that's been going on out in the country. And then over time we're ending up, when I look at those numbers, we've overcorrected. And so that just seems not quite right. When you look at the 10- and the 15-year numbers, that's too much of a reduction. So we're suspicious of that. It doesn't seem right, and I think we need to do some reconstructing more sooner. We've been

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drifting for way too long. There has to be a correction and that we also have to address the elephant in the room, which is how we fund K-12 education. I think we've drug a whole bunch of folks into this, these caps, that were not the primary problems. K-12 education funding is the elephant in the room. And with that, I'd end my discussion because I've hit the red light. And I respected the Chairman's admonition that folks who live closer in should wait until end. And I've done my job. [LB958]

SENATOR GLOOR: I appreciate that, Mr. Hansen, as do several people who are almost home to their beds--almost. They still have a ways to go. [LB958]

JOHN HANSEN: Thank you. [LB958]

SENATOR GLOOR: Questions? Seeing none, thank you. [LB958]

JOHN HANSEN: Thank you all very much and I would also thank the Governor for putting this issue on the table and thank him kindly for staying to the bitter end. [LB958]

SENATOR GLOOR: I think he's taking everybody out for pizza that's left. (Laughter) Maybe not. Anyone else who is in opposition to this bill? Anyone in a neutral capacity? And I will have the clerk go through these letters and register each one of them in the record as letters in opposition. Good evening. [LB958]

MATTHEW EASH: (Exhibit 74) Good evening, Chairman Gloor and members of the Revenue Committee. My name is Matthew Eash; that's spelled M-a-t-t-h-e-w E-a-s-h, and I represent myself on behalf of my company, Nebraska School Finance Strategies, Incorporated, a company formed from two former government experts on the TEEOSA state aid formula. I testify as neutral regarding LB958 and I'm here primarily to provide the committee with an alternative analysis of fiscal impact from that of the Legislative Fiscal Office as well as to provide this analysis at the school district level. We believe the fiscal note understates the impact by stating that TEEOSA state aid would increase by only \$8 million in FY 2017-18, the first year that LB958 would take effect on TEEOSA. The fiscal note provides no explanation to how the amount was derived and there really is no way to predict TEEOSA accurately for that out year FY '17-18 without using both the real data, actual data for land valuations and for school spending, neither of which will be available to anyone until October for the calculation of adjusted school...school-adjusted valuation and December of 2016 respectively for school spending. The most relevant method for estimating FY '17-18 TEEOSA is to apply the changes of LB958 to the most recently completed model and data for TEEOSA, in this case FY '16-17, and apply that impact as a relative annual change for consideration in future years. My company did this and we calculated a state General Fund increase of approximately \$26.2 million, or 2.67

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percent increase in state aid, that is, if LB958 had been in effect--sorry, I lost my place--had been in effect for the upcoming FY '17 TEEOSA aid distribution and changing no other laws. This amount would be similar as a percentage in subsequent years. Note that we used for the calculation of FY '16-17 the district level precertification that was recently published by the Nebraska Department of Education on I believe it was January 8 of this year. The basis for this fiscal impact estimate relies on the calculation for LB958's new adjustment factor, which is vaguely defined in the bill and primarily conferred to the Tax Equalization and Review Commission, TERC, to develop. Still, the intent of the computation was enough for us to generate a reasonable mathematical formula and apply it to 2015 land valuations. The formula we used is explained in attachment A of the packet I gave you. Applying the new discounted agricultural valuations to all school districts will result in the following: total reduction in land valuation of about \$12.84 billion; total reduction in 2016 taxes levied, about \$92 million; total loss in ability to levy increases above the \$1.05 lid, about \$8.4 million; and then the TEEOSA impacts would be local...without going into all the detail, the small details, the bottom line is that TEEOSA would grow about \$26.23 million from \$984 million, which is currently estimated by the Department of Ed, to \$1.011 billion. And I see that my time is up. I do have a little bit left there, but you can read that. That's more of just a discussion about decreasing land values, which actually happened to one district. Believe it or not, they had decreasing ag land values. So if you want to read that you can. And I'm available for any questions. [LB958]

SENATOR GLOOR: Are there any questions? I don't see any for our only neutral, it appears, only neutral testifier. [LB958]

MATTHEW EASH: Thank you. [LB958]

SENATOR GLOOR: Thank you. Are there any other neutral testifiers? I do not believe so. And there will not be a closing. And that ends this hearing on LB...what is it, LB958? (Laughter) [LB958]

LYNN REX: Senator Gloor, and those letters will be, sir, on the record? [LB958]

SENATOR GLOOR: They will be on the record. The clerk will get each of them written in, Lynn. [LB958]

LYNN REX: Thank you. Thank you so much. [LB958]

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SENATOR GLOOR: Thank you all for your patience. And with that, we will move on to LB717. Thank you, Governor, for your participation in the entire hearing. Senator Groene, if you wouldn't mind giving us a second to dig out. [LB958]

SENATOR GROENE: Oh, what's another second? [LB958]

SENATOR GLOOR: It may take me a minute. Thank you for your patience, sir. The floor is yours. [LB958]

SENATOR GROENE: I can start? [LB717]

SENATOR GLOOR: Please. [LB717]

SENATOR GROENE: (Exhibits 1-4) Mike Groene, M-i-k-e G-r-o-e-n-e. I'm introducing LB717. After listening to that, I thought maybe changing my handouts to make sure we got back to why we're here. If you look at this handout right here, it's from the...property tax levied by local governments from the Department of Revenue. In 2004, total taxes collected was \$2,139,000,000. In 2015, I had to hand write it in there because...\$3,781,000,000--a 66 percent increase. That is why taxpayers are upset. Sadly, you did not hear from a lot of taxpayers; you heard from a lot of government employees who have very good salaries, very good health insurance. They didn't lose it because of Obamacare, like the local farmer did. And they have very good retirement. So they're, as far as I'm concerned, representing themselves. Because the taxpayer, the city councilperson, the county commissioner, we had one or two, is who I would have liked to hear from. But anyway, that's why we're here, that huge increase in property taxes. I figured some of the percentages. Even though I like Larry Dix, but the counties have gone up 70 percent in asking--not mill levies, asking--in those ten-year period. Cities are 55 percent. If you throw in the \$60 million they took of tax increment financing, they're at 81 percent because they took that money. Those are tax dollars. Rural fire districts are 100 percent. Natural resources districts are 82 percent; miscellaneous districts, you know, county fairs, that type of stuff, 56 percent. Education service units, ESUs, 81 percent; community colleges, 128 percent; school districts, 64 percent. Actually, they're on the bottom side of it. That's in a ten-year period how much they've increased their asking. We pay our taxes in dollars, not mill levies, not valuations. So anyway, I'll get to my bill. I've got my summary here I'd like to go over, and then go over some of the handouts as they tie into it. The reasons for LB717, I looked at the Tax Modernization Committee's recommendations on property tax. LB717 answers three out of the five. First, it increases the state aid commitment to schools to offset property tax use. It is 60 percent of our property taxes if you look at the numbers, is schools. Second, it reduces agriculture land value percentage to reduce the rate of tax. It puts commercial, residential, and ag land back in proportion. And the fourth one out of the five was offset the regressivity of the

property tax by providing relief to households having a higher burden of property tax on their household income. We address residential, commercial, and ag land. We level it off; we smooth it off so a family making an income doesn't get hit with a 20 percent tax increase on their property valuation. When I banged on doors, the people in North Platte were just as worried about their valuation increases as the farmer was. But this LB717 takes them spikes out of the valuation. I found it interesting one of the county appraisers said the farmers have made more money. Him as a public employee, his wages will go up 3 percent, 4 percent every year. That farmer and that rancher, that won't happen. His property taxes will go up but his income will drop to the point he's losing money. The comparison to living in Douglas County and living on a farm is a big difference. Number...B, it addresses the assessed valuation for residential, agricultural, commercial property...has risen unrealistically, disproportionately in relation to inflation and personal income growth. Property taxes have gone up than the average person's family income, there's no denying it. C, it addresses local governments have increased spending without facing citizen scrutiny when tax rate increases would otherwise be proposed. Irrational valuation increases also give a false impression of economic growth that does not in reality exist. To the point, to Mr. Dix again, yes, the counties...my county has done a good job, lowered their levies, lowered their levies. But if we can level off valuations to a normal level, we will stop a lot of this because now local entities cannot hide behind valuation increases and sit there and say I didn't raise your levy. That's how the system is supposed to work. If you want to raise taxes higher than asking--let's remember, we pay our taxes in dollars, the asking--you should have to go to the people and say we're raising your levy, not say I didn't raise your levy. I didn't raise your taxes. A 66 percent increase in property tax asking in 10 years. They raised their taxes, entities have raised taxes, period. D, this is one I'm getting to where...the abnormal increase in valuations, mainly in agriculture, has had a disproportional effect between property type sectors, causing an unintended inequity in the state aid of education formula, TEEOSA. There's a unique relation and only with education between the state funding and property taxes. It's a direct ratio, relationship. And that's where a lot offset...well, we as an elected body can make a difference in property taxes and that's in TEEOSA and fixing the valuations so that we get to the point where we uphold our end of the bargain. We're all kidding ourselves if we don't think there's going to be a shift in order to get property tax relief. And there needs to be. What would the legislation do? It would put in statute that all classes of property would be assessed at over five years--uniformity, it's in the constitution--of comparable sales, replacing the method based on three-year history for agriculture and commercial with two years for residential. One of the assessors said, well, the five years would just change everything. Who ever...does anybody believe taking a three-year average is market value? It's not even close. Market value is what you will give me this right now today--not tomorrow, not yesterday, not three years ago. Three year-average is not market value. So we would go five years. For one thing, the going five years helps a lot of rural counties. In three years, they don't have enough sales of ag land. They don't even have enough sales in some of their little towns to do a good job of having enough sale history to value their land. You go into Hooker County where you might have 50 landowners, ranchers. That land

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don't change hands very often. Five years gives you more opportunity to have more sales to compare. Now here's the part that I want to address to the two assessors from Platte County and Douglas County. They did not read my bill. They did not look at the bill. Mr....the one from Platte County, I answered him, gave him an e-mail, explained the 20 percent trim. With this 20 percent trim, I got three examples there. It's the...now this is one of those oxymorons. We're going to throw out the low ratio of sales price to valuation. So if you have a home that was...I took a home, a \$100,000 home and it was valued at \$100,000 by the county assessor and sells for \$200,000, that's a 50 percent ratio. If you had a home at \$100,000, sold for \$150,000, it was a 66 percent ratio. You just divide into it. If the market fell apart and it was a \$100,000 home--you can relate this to ag land too--\$100,000 home and it sold for \$80,000, it has a 125 percent ratio. We're throwing out the 20 percent of those abnormal low ratios over the five years. So what that does is...of those three sales, the \$200,000 house would have got "thrown" out because it was sold way over its present valuation. So now what happens, the farm prices go down or they level off. Valuation is a \$10,000 acre, it sells for \$10,000. The next year we drop off the last year, the two thousand and...whatever it would be...eleven. We drop that off. But these new sales come in. They become part of the pool. Say there's a hundred sales. Those ratios of 100 percent or 125 percent come in the bottom, now the assessor goes back and says, well, in 2013 we had this sale that had a ratio of 60 percent. You pick that one out and you throw it out. It reacts faster to the market. Otherwise we're waiting the three-year period. Everybody knows if you had a three-year period, you had a \$100,000 house, sold for \$120,000 and the next year it was sold for \$150,000 and then the next year it sold for \$130,000, everybody says my valuation is going down. It's not going down because you're replacing \$130,000. You're throwing out the \$100,000 and you're replacing it with \$130,000 and averaging it. We, in this case, are throwing out the low ratios, the low ratio which is the abnormal sale. So it's picking, it's reacting faster to that farmer and that rancher's income because now the land prices are going down and apparently his income has went down and it's picking out those higher ones and throwing it out and valuations are reacting faster. I hope that makes sense. So Mr....the two assessors didn't understand that. They were thinking the highest sale. No, it's the lowest ratio. It's an oxymoron, but that's what we are doing. It reacts quicker. Like I...this change would also have the desired effect of dampening the spikes in valuation by removing the abnormally high price sales...I shouldn't say high price...abnormally out of normal sales that were affected by local situation. And here's the one on the whole. Well, first I'll go to this. You've seen this study that was done by the Revenue Department. We worked with them and they do wonderful work. This here. And I put agriculture up front because they're the ones that took the hit. If you look at...this is year over year. So 2013 in, let's say, the northwest. It went up 11.6 percent from the prior year; went up 12 percent from the prior year in '14; in '15 it went 24 percent over '14; 2016 it's projected to be 5.77 percent. So now if we trim...but look at that. Everybody says the farmer has paid too much for his land. If we just trimmed the ten, one out of ten abnormally, that high one caused 31 percent to 32 percent of the total valuation increase. So you wonder why a farmer gets upset and says, wait a second. I didn't pay that much for that land. One person, because you remember now, we're not taking a pool of

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100 sales. There might be five. So that one abnormal sale just makes a huge difference in the valuation, the high side. I just heard a rumor, so to verify it I called the Cuming County Assessor, area I grew up. Two farmers, just three weeks, they went over 160 acres dryland, a little bit of irrigated on it, \$12,900. They went to war, two big feedlots. The farmer who lost that sale went out and found another quarter and paid \$10,500. Another quarter, not nearby, went for \$7,500. Now you average those three and you keep that \$12,900 in there and you'll understand why valuations are out of whack, because we are taking in those high sales that are abnormal and it's reflecting back on all valuations because we're not selling 100 houses in a neighborhood in south Omaha. We're talking five sales might have happened. And that one abnormal sale has an abnormal high effect on all the valuations. What this does is take that sale out and takes it away. On the next...I have all of the...and then it's broke down by commercial and residential. Residential would get a 6.7 percent decrease in their valuations. But remember, the biggest part about it is it's going to smooth it out. Ag land would get a 37 percent. But I forgot to mention something. You say, 37 percent, you're going to lower their valuations by 37 percent. I've seen the first thing of that and I said, oh, whoa, nobody is going to go for this. Then I asked the Revenue Department, well, go back to '13 and '14. And on the chart below it shows you what the average value was in those areas. Take, for example, the statewide average. In 2013, the average farm price was \$2,062. Everything is blended there: grassland, irrigated, dryland. Went to \$2,088, \$3,066, projected at \$3,222. But if we trim the 20 percent, it goes to \$2,153; it takes it back two years, a little bit above two years. That's how out of whack we are with valuations lately. We're just taking it back two years. We're doing it with the homes and commercial and it's making that big of a difference. That's why the average taxpayer is upset. I don't care about the taxing entities. I care about the taxpayer. That's why he's calling you. That's why he talks to you about property taxes, because of that. But we're just going to take it back to 2013 and it's pretty much the same. The grassland folks out west in Senator Davis' and my area too. I got a lot of grassland. If you look at that one. Those folks are really going to get hit this year. And the reason I want to point that out is because they're lagging behind. Cow-calf guy, remember, they went through a drought, big drought, caught a couple wet years, had good cow-calf, crops again, land was selling and people were paying for it. So this year they're lagging behind. In the north it's 51 percent increase next year if we don't hold the valuations. On northwest, it's 20.4 percent; 26 percent in one year. These folks have farmed these for 150 years and they're going to get their valuations increased by a fourth to 50 percent in one year. But the average is 24.79 (percent). So they're really going to get hit if we don't hold the valuations. As to what those assessors called a "freeze," I'm calling it a "hold." And there's lots of reasons why we're holding it, so that increase don't take effect. And we're going to be more out of whack with the TEEOSA formula, way out of whack, if we allow that to happen. What we do is we hold the valuations for one year. I sent Mr. Ploosh (sic--Placzek), whatever, the Platte...an amendment. Our original intent was it's hold present valuations, '16 at '15, but also add in improvements, land improvements if you build a house. So there won't be any protests. I'm offering amendment to the committee that would...I would add to the...I believe that we had it covered, but too many folks said, no, you don't. You

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don't have...you're not covering growth. So nobody is going to get a free pass on their new house for a year. The growth is going to be put back. Ruth Sorensen said it's not that hard. They just take the growth, the person who went to a pivot on dryland and increased value of the irrigated land, you just take it back into 2015, same formula, and you put a value on it. But it's not...on the second page, it adds up to some, but not a lot. I got the history there. If look at the bottom of it on the third column, after the year it's got percent growth total value. So it would have a 1 (percent) or 2 percent increase on total valuations. You're freezing...you're holding most of them. But the ones that have any increase...so it would add up to about another 2 percent of total gross valuation. But we always planned to do that. We're clarifying the language here with this amendment. So it's hold at last year's, plus growth. Also, the reason we're doing this is because of the fiscal note. If we can hold at one year, it's going...TEEOSA is really going to get out of whack, worse than it is now. So if we can hold it and not allow those land valuations to go up, when we do have the fiscal note which you folks have seen and I'm not shy to tell you that in '16, '17, '18, it will be nothing this year because if you've...the way they figured TEEOSA, they took '15's anyway and projected it into the second year of the biennium budget. It doesn't affect that. The first year it affects is '17-18. That's another reason we're holding it. We all got a year. We don't have to worry about it this year. Then whoever the new Appropriations Chair is, we address how we pay for it, where does it come from. Do we put...you know, every year you got to appropriate...every biennium you got to appropriate into the Tax Credit Fund. Could it go here, some of that? It's the same thing. This is called property tax relief if TEEOSA fills in. There's a lot of ways we could do it. But it's \$43 million...it actually would be less. It's probably around \$40 million if you add in the growth. Tom Bergquist did not add in the growth because he believed also it was only a transfer. So growth, there would be more property taxes coming in to the system. The next year it's \$114 million. And you say, well, that's an increase in spending. It is not. The taxpayers don't have a feud between the school district and the Legislature. He's a taxpayer. Which pocket is he going to pay for it? Is he going to pay out of his property tax pocket or is he going to pay out of his income tax pocket? But I will tell you this, in a down economy property taxes are regressive. He loses...I've got 250 engineers lost their job in North Platte because of green energy and not hauling coal. Those guys have to live in their house, they have to pay that \$5,000 property tax. So if you ask them would they rather have the state cover some of the education or would they rather lose their house because of property taxes are going up so high. It's to the point where we're getting confiscatory on property taxes on homes, on property, on farms. So anyway, that's the fiscal note. So we're shifting. We're going to shift. But the biggest thing this thing also does, it doesn't happen again. We don't have the spikes because we're removing the abnormal sales. The spikes in residential, commercial, and in agriculture, it would remove them. So now we are more common sense on how we fund education. We know better what the property tax is going to be, the Legislature does. We're going to put pressure on local entities because now they're going to have to raise the mill levy to raise your spending in ten years by 70 percent, by 81 percent from the cities, by 125 percent from the college. Now they're going to have to go to the public and say we need more money than what inflation and

growth, normal growth is in property valuations and we're going to raise your tax rate. Do you want a check on spending at the local level? Make them start raising tax rates again and you'll see who gets elected to the county board and to the city council. So anyway, that's a big plus of this. If you looked at 65...this does everything 65/75 would have done, plus it gives commercial and residential. If 65/75 would have been put in, in either of the previous two years in agriculture, it would have been swallowed up the very next year because of the increases, the very next year. If you go on ag...if we would have put it in '14, in '15 it was 24 percent increase. We gave them a 14 percent deduct because 65 divided by 75 is 14 percent. In 2014 it was 12 percent. Some of these areas, in central it was 38 percent. It would have just disappeared the very next year. This stops that. This starts making everything on a level keel, a smooth approach, and plus it gives us all a year. They're going to tell you that they got to raise their mill levies. Duh. They didn't complain when the other side of the equation went up. Really, did they? There's two parts of a property tax equation: valuations and mill levies. If we drop the valuations by these amounts, we just recalculate and raise the mill levy. Now they say they're at their lids. Well, maybe they don't need to TIF as much and collect those property taxes like they should and some other...it could make a really sea change in how things are done and how we get the taxpayer back involved in how we tax and mill levies become important again. And in order to integrate into existing valuation law and mesh with state constitution, taxes shall be levied by valuation uniformly and proportionally upon all real property and franchises as defined by the Legislature. You keep hearing this word "market value." We defined it. If just strike the word "market value" and use "value," we just redefined it to that the value was five years and you trim 20 percent. We decide that value, what the definition of "value" is. That's what the state constitution says. So in my statute I strike the word "market value" because it's an oxymoron anyway. What is market value? By statute it says it's January 1 of that year. So it should be what houses would sell for, what that land would sell for that day. We average three years. We average two years on homes. So it's really...we don't do it anyway. So let's just redefine what value, property values are call it at five years, and we do that. The state constitution says we do that, we define it. And I went through the study, but I just went through that already. And I also on the back attached the Modernization Committee's recommendations. As I said, we hit three of them, the three most important ones. But I also did the constitution. And in Section I up above it says...Article VIII, Section 1: Taxes shall be levied by valuation uniformly and proportionately upon all real property and franchises as defined by the Legislature except as otherwise provided. We define it. Down below in Section (6): the Legislature may prescribe standards and methods for the determination of the value of real property at uniform and proportional values. For five years, everybody gets the top...the most aberration of the sales kicked out, the 20 percent, one out of five. That's proportional. That's uniform. Now to the point that they said we don't throw out the low, we don't do the Olympic system of throwing out the high and the low, we already do. Most land comes up because of an estate, in agriculture. You know, if you go buy a coat, you can go across the United States and take a coat back home. Real estate isn't that way. God only makes so many acres. And even if you buy a house in a community where your job is, it's tied to that real

estate. You can't buy a house in Chicago and move it here. But I can go buy a coat in Chicago and bring it here because I got a good deal. So what happens with real estate is we already throw the low ones out. Me personally, I have an opportunity to buy 40 acres in my uncle's will at valuation price. And you say, well, they throw that one out. Two neighbors get together and say I got an 80 over here that fits into my puzzle, you have one over there that fits in my puzzle. Let's just swap them at the valuation price. That gets "thrown" out. A bankruptcy gets "thrown" out. The two farmers who go after each other and pay \$12,900 because they both want that quarter, that doesn't get "thrown" out. The low ones do. We throw them out now. So like I said, I put it...summarize it, I put most land sales originate from estate sales. That's reality. Heirs selling land or land being sold to heirs would set terms. There's a lot of land trades handed between father and son, who's going to be the farmer, at a certain set price. That's out of there. Let me explain to you what I learned at the University of Nebraska in economics. If you have ten buyers and nine apples, price goes up. That's market. But what happens with land, it only comes up in a generation. And you got ten buyers or more. Two of them will disappear because you're cut out of the sale because it's sold to family members. A special deal was made between two operators. So now you got ten farmers after eight pieces of land and the price spirals. So we're going to even that field and say we're throwing out the two high. We've already thrown out the low. But anyway...what else do I have? Answer some of the other folks. Remember though, what you heard today was public employees. And we all get passionate about our jobs. We take it too serious. But the average person goes about his work. And he's paying too much in property taxes and he know he's paying too much in property taxes. The numbers show they're paying too much in property taxes. We pay our taxes in dollars. We need to reapportion it. We need to move it around. We need to slow it down. We need to put pressure on local entities that they have to raise the levy if they want more taxes. But look at those numbers. You know, there's been screaming about the community colleges. There's a reason we ought to be screaming if you see how much they've increased theirs in the last ten years. And it's really what amazed me...well, it didn't really amaze me. We all talk about the schools because it takes the biggest punch. It's the small entities that nobody notices. They've just taken great advantage to the valuation increases because you're only paying 3.4 mills when the school is taking \$1.05. But it's been escalating and they take it over a large area. So anyway, I'd like you to consider my bill. I'd like to prioritize it. I think it works. It's either...I told somebody the other day, I said what TEEOSA is to Nebraska is what Medicaid and Medicare and Social Security is to the federal government. We have a problem. We got a funding problem because we are 49th. And if the public...the people get upset and they run a petition drive, you would get everybody. It would be easier than the death penalty petition to get people to sign that. And if they pass it, we're not talking about \$148...3 million next year on \$114 million. We're talking a billion bucks. We're probably talking a transfer of a billion. And then we're going to have a problem. Now that's not a threat; that's just reality. But this works for everybody. I sat in that equalization...in that committee. We all did. We heard from the urban senators who said we understand farmers, but we want something too. I heard the Douglas County Assessor saying, well, there's going to be an increase in residential.

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They don't want that either. And they're taxpayers too. This takes care of them too. This levels it off. There isn't no shocks. We've all heard from our citizens who said I got a 20 percent increase on my house. It happens to everybody because all of a sudden it was overlooked by the assessor, they went into an area, a couple of people bought some houses out of line, and boom, they get hit. This fixes that. So anyway, I close with that. Any questions? [LB717]

SENATOR GLOOR: We've heard a lot of testimony today. I would this...you're first person that used the word "confiscatory." I was quite impressed. Are there any questions on the bill? Senator Harr. [LB717]

SENATOR HARR: Yeah, thank you, Senator Groene. I always enjoy listening. And you make a lot of great points. But you know, I guess we got to go back to that fiscal note, the \$140 million. Part of me says I want to do that. I think it's maybe a great way of doing things and maybe it's a fairer way of doing things. But my question is where do we find that \$140 million? [LB717]

SENATOR GROENE: Last year you found, what was it, \$200-some million for the Property Tax Credit Fund, we did. And you...\$43 million, that first \$43 million is a good example of what's been happening, because we hold for one year, if we didn't, that \$43 million would have been transferred to the property taxpayer. Because if we allow 2016 to happen, the property taxpayers are going to come up with that \$43 million. The amount I heard a couple of school people here talking, whining about like they do, about we lost state aid. They didn't lose aid. They didn't lose funding. The property taxpayer paid it. They lost state aid but it was filled in by the property taxpayer. So either we transfer another \$43 million to the property taxpayer next year, or we start fixing it. [LB717]

SENATOR HARR: So are you advocating elimination of the Property Tax... [LB717]

SENATOR GROENE: No. [LB717]

SENATOR HARR: ...that money goes into, or would you keep it at \$200 million... [LB717]

SENATOR GROENE: I didn't say that. We'll see what we have. We'll see what we have. [LB717]

SENATOR HARR: ...keep it at \$200 million and then find another \$140 million somewhere else? [LB717]

SENATOR GROENE: Run for Appropriations Chair. I'll help you figure it out. But we're giving ourselves a year. We're giving ourselves a year to look at the budget. We found \$25 million--it

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wasn't hard to do--for University of Nebraska's deal down in Omaha. We found \$8 million for Creighton. That was easy to do. We found another...we gave away another \$8 million to the Property Tax Credit Fund, \$8 million after the last... [LB717]

SENATOR HARR: But those were one time. Those were... [LB717]

SENATOR GROENE: Remember that? The Forecasting Board came, it said it was another \$8 million, so we all jumped up and down and we threw that in. It never existed till we gave it away. When the Forecasting Board came out and they said there was another \$8 million, so right away we threw it into the Property Tax Credit Fund. That \$8 million never existed because we didn't get it. We were \$110 million down. What I'm saying is there's...that is...you hear it all the time. That is our number one concern in the state constitution. What do you hear the most about? Property taxes out there. We are supposed to fund public education. If you want to stop the urban-rural split, fix TEEOSA. That money was shifted to the property tax; nobody complained. The taxpayer did because he noticed...the funding is still there. The taxpayer says I still paid for public schools, but now more of it came out of my property tax pocket than it did my income tax pocket. And it's the old story. If you let me make more money, I'll pay income taxes. But if I don't make money, I don't have the money to pay my property taxes. And that's really apparent in farming and people have lost that in ranching. You're driving up your property taxes, but that...there's no guarantee their income is there that next year to pay it. So do we do what we're...this thing keeps...stops this in the future. It keeps that even keel, the increases on property taxes where we know where we stand. We're not going to have this huge increase one year in property taxes and a variation of income taxes, the state aid to education, it fixes it. [LB717]

SENATOR HARR: It's very intriguing, very intriguing. Thank you. [LB717]

SENATOR GROENE: You'll help me find the money, won't you? [LB717]

SENATOR HARR: I'm just waiting for your inheritance. [LB717]

SENATOR GROENE: (Laugh) [LB717]

SENATOR GLOOR: Senator Sullivan. [LB717]

SENATOR SULLIVAN: Thank you, Senator Gloor. Thank you, Senator Groene. In the fiscal note, it says that they predict that there would be an increase in appeals being filed... [LB717]

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SENATOR GROENE: That was...Tom told me he had to go by what he interpreted the language. It was the same with that county assessor, because the appeals would be if we did not allow growth because somebody is going to say my neighbor put a brand new house in last year and he got no taxes. [LB717]

SENATOR SULLIVAN: Sure. All right. Okay. [LB717]

SENATOR GROENE: He's just paying \$300 on the lot. That's what they were talking about. [LB717]

SENATOR SULLIVAN: Okay. [LB717]

SENATOR GROENE: I talked to Tom Bergquist. But we fixed that with the amendment. [LB717]

SENATOR SULLIVAN: Yeah, okay. [LB717]

SENATOR GROENE: Those appeals would come from that. If we allowed a farmer to farm for a year, a dryland quarter with a new pivot on it and not tax him at irrigated or on his pivot...well, the pivot would be taxed because we're not messing with personal property. But if we allowed him to farm it for a year, somebody would protest that I'm paying for irrigated land and he's not. Adding that amendment that we put growth into it, that eliminates that. And that's what Mr...the county assessor from Douglas County was talking about. [LB717]

SENATOR GLOOR: Senator Davis. [LB717]

SENATOR DAVIS: Thank you, Senator Gloor. Senator Groene, interesting proposal. My problem with 75/65 was always that, because Nebraska is so largely agricultural, it didn't really fix the problem because we needed so many dollars for local school districts to function. And so dropping that valuation didn't really matter much because they would have to jack their levies up in order to take care of that. And I see this as having the same problem. Would you like to address that? [LB717]

SENATOR GROENE: It will bring some districts back in equalization. But as I said, we're fixing long range. That problem you talk about, about the community colleges, that only helps with equalization. But now we're telling that local college board, wait a second, that valuation didn't go up. You're not going to raise that...you're not just going to hide behind that valuation increase. We're telling the counties that. We're telling the NRD, no more, you're not hiding behind that.

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This is a long-range fix. They're out there with Senator Sullivan's with getting income tax credits back to those rural schools. That would help them. But we're fix...not everybody is going to be happy, but it fixes an awful lot more ag problems than 65/75 ever did... [LB717]

SENATOR DAVIS: But you... [LB717]

SENATOR GROENE: ...because, as I said, the next year it disappears. [LB717]

SENATOR DAVIS: ...you can see my point, though, can't you,... [LB717]

SENATOR GROENE: Yeah. [LB717]

SENATOR DAVIS: ...that for a very agricultural district, dropping the ag valuations back by 50 percent... [LB717]

SENATOR GROENE: Not 50 (percent), but. [LB717]

SENATOR DAVIS: ...there's going to be some benefit. The other property in that district is going to pay a lot more tax--and maybe they should; I'm not going to argue that point--but still in all, you're going to end up with the largest part of it being borne by higher levies, unless there's wasteful spending. [LB717]

SENATOR GROENE: But everybody, even the commercial, will get a valuation deduction, and so would the residential--not as high, but they didn't take the increases that ag did in the last three years. But everybody would have some reduction. [LB717]

SENATOR DAVIS: And that's true, you know, but I think what I'm trying to say is you can suppress the values all you want to, but if local governments need a certain amount of money to function, they have to get it somewhere. [LB717]

SENATOR GROENE: Yes, but in the future, I'm looking to the... [LB717]

SENATOR DAVIS: And we have not been...we have not met our obligation, our responsibility, in my opinion. You heard me talk about the special education piece in education last week where, you know, essentially \$130 million has been shoved down to the property taxpayer because of state decisions. [LB717]

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SENATOR GROENE: I'm just looking at one piece of the puzzle and a big piece. We're trying here to control one of the sides of the equation. The biggest thing I seen what they did wrong in 1990 with the...is when you read in the TEEOSA when the did the state aid, is they said we are going to control levies, as if that was the answer. There's two parts to that equation. You can't control one of them. And they've controlled basically the wrong one, I think. They should have controlled the answer, which some of the legislation out there is. They should control the increases in the spending. But they never thought the valuations would do what they did. So controlling the levy did nothing when valuations, the other side of the equation, went out of control. We don't pay our taxes in levies. [LB717]

SENATOR DAVIS: Well, I think... [LB717]

SENATOR GROENE: And we don't pay them in valuations. We pay them in dollars. But statewide it brings things back into proportion between the three sectors: residential, ag, and...remember, that one person goes out there and pays way much to a quarter of ground and it affects 30 percent of valuation on everybody else. [LB717]

SENATOR DAVIS: And would you say the same thing when someone goes and buys a \$15,000 acre ranch? [LB717]

SENATOR GROENE: Yeah, same thing. And that's what's happened apparently. I'll bet you if we analyzed those high grassland prices, you'll probably find out in most of those areas where it's going to go up 20 (percent) and 25 percent it was maybe one-tenth of the total landmass that got sold. But it's going to affect the other 99.9 percent of the valuations. [LB717]

SENATOR DAVIS: What about the borrowed sale piece, is that a player at all? I mean, Ruth Sorensen deals with borrowed sales. [LB717]

SENATOR GROENE: Well, that's why we go with five years. See now we're going back five years because right now... [LB717]

SENATOR DAVIS: But I'm trying to say, so one of the obligations that she has is to find enough sales to have a certifiable... [LB717]

SENATOR GROENE: And she had to find them in three years... [LB717]

SENATOR DAVIS: Right. [LB717]

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SENATOR GROENE: ...before. [LB717]

SENATOR DAVIS: But she has to reach out a long way... [LB717]

SENATOR GROENE: But now she don't have to reach so far because now she can go back five years and there's more local sales in five years. So it helps there too. [LB717]

SENATOR DAVIS: Okay. Thank you. [LB717]

SENATOR GROENE: That's why...part of the reasons we went five years, plus to have a bigger picture of when we...when we trim it, that we got a bigger pie to trim from. [LB717]

SENATOR GLOOR: Other questions? I don't see any. My guess is you're going to stick around to close. [LB717]

SENATOR GROENE: Yes, and to answer the accusations. (Laugh) [LB717]

SENATOR GLOOR: We'll move to proponents for this bill. [LB717]

KEN HERZ: Good evening, Chairman Gloor and members of the Revenue Committee. Again, for the record, my name is Ken Herz, K-e-n H-e-r-z, and I'm here today on behalf of the Nebraska Cattlemen in support of LB717. We appreciate the work of Senator Groene has put in working on this bill and we thank him for bringing it forward this year. As I shared in previous testimony, property tax reform is the number one priority of the Nebraska Cattlemen. In reviewing LB717, the Nebraska Cattlemen's legislative committee supported the bill, and especially supports the portion of the bill that changes the period of time for collecting comparable sales used to assess all classes of property from three years to five years. This five-year change is a more accurate representation of the market cycle with its highs and lows. We also support the trim factor of those 20 percent of sales that have the lowest valuation-to-sale ratio. In many parts of the state, the market area considered when determining comparable sales is sometimes large because there are so few sales that occur. One or two sales can skew the comparable sales in that area and, thus, not accurately represent the true land values in that are. LB717 would help take out those sharp differences in sales. Lastly, LB717 freezes assessed values for 2016 based on January 2015 levels. Property taxpayers would not see an increase for the current year which would provide tax relief, since most agricultural landowners have paid double-digit increases for the past five years. In closing, Nebraska Cattlemen supports the concepts contained in LB717 and believe it would provide real tax relief for agricultural property taxpayers, as well as residential and commercial property taxpayers. [LB717]

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SENATOR SCHUMACHER: Any questions? Seeing none, thank you for your testimony.
[LB717]

BRUCE RIEKER: (Exhibit 5) Good evening, members of the committee. My name is Bruce Rieker, B-r-u-c-e R-i-e-k-e-r, vice president of government relations for Nebraska Farm Bureau Federation testifying in support of Senator Groene's bill. I appreciated all of the introduction that Senator Groene did. It was highly informative. There are still some things that we at Nebraska Farm Bureau are analyzing with regard to the five-year rolling average. However, we do support it and we commend Senator Groene for putting all of the work together for this. It does increase state aid commitment to schools from the state government, reduces ag land values, and provides relief to the households having higher burden of property tax on their household income. The rest of the testimony that I've presented reiterates some of the information that our president, Steve Nelson, submitted to the committee on his prior testimony on LB958. And with that, if you have any questions I'd be more than happy to try and answer them. [LB717]

SENATOR SCHUMACHER: Senator Harr. [LB717]

SENATOR HARR: Thank you, Senator Schumacher. Thank you for being patient, Mr. Rieker. I have a question regarding your policy that no more than 40 percent of school funding should come from local property taxes. Is that aggregate over the state or is that each school district?
[LB717]

BRUCE RIEKER: Our policy states that it's each school district, however, we are...I mean since there isn't a bill that's been advanced to that end, there have been some comments, suggestions from our members that that needs to be aggregated. So we are still in the process of finalizing exactly how we contend that would be. [LB717]

SENATOR HARR: Okay. Thank you. [LB717]

SENATOR SCHUMACHER: Senator Davis. [LB717]

SENATOR DAVIS: So have you done a study to that effect, Bruce, to look at the--thank you, Senator Schumacher--to look at what that aggregate is today? We've got the \$1 billion essentially from TEEOSA that's state funding. [LB717]

BRUCE RIEKER: We have some of that done, and I'd be more than happy to get you that information as we get it done. Jay Rempe, our senior economist, has been analyzing quite a bit of that and we've been working through all of this as quickly as we can, not only with these

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proposals but with our contention that no more than 40 percent of school funding should come from property taxes. And we can get you the numbers for you and the rest of the committee. [LB717]

SENATOR DAVIS: That might be helpful. [LB717]

BRUCE RIEKER: You bet. [LB717]

SENATOR SCHUMACHER: Any other questions for Bruce? Seeing none, thank you, Bruce, for your testimony. [LB717]

BRUCE RIEKER: You're welcome. Thank you. [LB717]

JOHN HANSEN: Mr. Vice Chairman, members of the committee, again, my name is John Hansen, J-o-h-n, Hansen, H-a-n-s-e-n. I'm president of Nebraska Farmers Union. We are in support of the concept of what Senator Groene has put together. He has put a lot of work and effort into it. We kind of put it into the kind of new approach and effort category. We've thought for a long time that too small of a number of sales has too much of an impact on the final outcome. And as you...as I described to the committee before earlier when we were talking at a previous matter about some of the sales in my neighborhood, well, we had ground that two families had wanted and were competing against that hadn't come up for sale for 65 years. And they both had kids that were coming in the operation and, you know, there's not much land for sale. And so, yeah, they drove up the price well beyond what it should have been and then, consequently, a year later, what the market is, and yet those sales have a huge impact on the whole rest of Madison County. So a very small number of sales can have a huge impact and we thought that the Groene approach did a nice job of trying to temper that and tamp some of the very small number of really less than representative sales that had a huge impact on the process. And so at the end of the day we won't get property tax relief until we have more income and sales in the funding part of the formula for all schools and, you know, we know that. But we still need a good starting place for ag land valuations and we think that this, it warrants at least further study and consideration. With that I would end my testimony and answer any questions if at this late hour you would still have any. [LB717]

SENATOR GLOOR: Thank you, Mr. Hansen. Questions? Don't see any. [LB717]

JOHN HANSEN: Thank you very much. [LB717]

SENATOR GLOOR: Thank you. [LB717]

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TIM HRUZA: (Exhibit 6) Chairman Gloor, members of the Revenue Committee, my name is Tim Hruza; that's T-i-m H-r-u-z-a. I serve as legal counsel for the Lincoln Independent Business Association. We're a business member association of about 1,300 members here in Lincoln testifying today on behalf of LB717. I'm passing around a sheet. We have a very short statement of support for this concept bill. A couple of things that I would really like to highlight, I think, to keep it as brief as possible, is that we really appreciate the fact that this bill would have an aggregate effect on the valuation increases that we've seen and the property tax burdens that our taxpayers are facing across all classes of property affecting agricultural, commercial, and residential properties just the same. Obviously, being a business association in Lincoln, Nebraska, we hear from local taxpayers that are paying residential taxes and commercial taxes that continue to rise. We've seen valuation increase spikes across the board over the last few years. Probably the second point that is briefly stated there is the simple fact that we pay a lot of attention to our local budgets. The valuation increases get set in September, sometime in the fall. Most of our budget process takes place, setting the budget, determining the tax levies all takes place in the middle of the summer in July and August when we're dealing with local officials trying to set property tax levies. The best that they can do is estimate those valuation increases. If we can avoid spikes, single-year spikes in valuations where we're seeing over 6 percent in the LPS school district this last year, for example, taxpayers are better able to understand the conversation we're having about the tax levy amount in those terms when we're doing...going through that process in the July in the middle of the summer than they are when we get a valuation assessment that's set in September. Then you have situations, as Senator Groene explained earlier, where a taxpayer gets a bill after the first of the year for an amount that's much higher than they might have thought, but they see that their tax levy or they were told in July that their tax levy wasn't going up. Real dollars are what people pay attention to. We see this as a really good step, a small step towards helping this problem, addressing the valuation situation. We appreciate the committee's consideration of it and we would ask for the committee's support of this bill. [LB717]

SENATOR GLOOR: Any questions for Mr. Hruza? Seeing none, thank you. [LB717]

TIM HRUZA: Thank you. [LB717]

SENATOR GLOOR: Other proponents? Anyone in opposition to this bill? Anybody in a neutral capacity? Senator Groene, you're recognized to close. And you don't have to rebut anybody, Senator Groene. I would point that out. [LB717]

SENATOR GROENE: No, no opposition, unanimous vote, and we're on the consent calendar. (Laughter) [LB717]

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SENATOR GLOOR: You've been here a long time, haven't you? (Laughter) [LB717]

SENATOR GROENE: I understand why people went home. But to address Senator Harr again, all of that, that \$43 million plus the \$114 million, if we don't do something, that's money in TEEOSA formula that's got to come from somewhere. The \$43 million will go to property taxes. The \$114 (million) in '18-19 will be property taxes. It comes from somewhere. We're not putting...that money isn't new money into TEEOSA, into state aid to education spending. It's either coming from property taxes or income and sales taxes. It's not new; we're not adding more to the budget, the overall budget of schools. We're deciding who pays it, where does it come from. Does it come from income and sales taxes? Do we get above 49th in the nation in support of our local schools? Do we maybe get to 40th? You know, that's what we're talking here. And do we gradually fix it over time? But we are. And I'll admit, if you look at it, ag is getting the biggest deduction; residential, 6.7 percent; commercial, 14 percent. But who took the hit? It was ag. And the reality, as Senator Davis said, thank God for them districts, them large consolidated districts that still, if every ag school, local school got state aid to education due to this, we'd be looking at a lot more money than \$150 million. But we've got to start somewhere and to start somewhere is to stop this erratic, out-of-control property taxes. Let's stop the feud between rural--which is splitting wider all the time--between rural and urban, and it's all over this state aid to education. We all know that. So let's...I think this is a good way down the road to fixing that. It's not all the answers. Senator Sullivan's with Senator Gloor's bill, it fixes a lot of it. I think what we need to do is go back to...look past all those local entities and look past them at the taxpayers and let's give them more authority. Let them decide. Let's make that local official raise your mill levy if they want more money, like we used to do, and this does it. So I thank you. Any questions or you hear anything, I can give you a lot more information. [LB717]

SENATOR GLOOR: Senator Brasch. [LB717]

SENATOR BRASCH: I just want to commend you. You've done a lot of work on this, a lot of time, a lot of research. You've put this through the meat grinder most definitely. And we would not be the first state to use an averaging system, correct? [LB717]

SENATOR GROENE: No. [LB717]

SENATOR BRASCH: No. [LB717]

SENATOR GROENE: I mean most of them do. [LB717]

SENATOR BRASCH: Most of them do. [LB717]

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SENATOR GROENE: And throwing out the aberrations isn't nothing new. But remember, we define what the value is. [LB717]

SENATOR BRASCH: Yes, but it's not concept... [LB717]

SENATOR GROENE: And right now we have market value and we can just strike that one little word and we redefine what value we're going to...what our definition of value is. [LB717]

SENATOR BRASCH: And I heard the word "concept." This is a reality, this (inaudible)... [LB717]

SENATOR GROENE: But I want to give it a lot of credit. I don't know if they want me to give them credit, but Derrick and Ruth in the Revenue Department ran the studies and gave us advice on how to do it regionally instead of counties, because they...it's amazing what they can do and that...I wanted to make that point too. This is just a software change. I mean this isn't going back and penciling, adding five years. That's one thing they can do, too, with this giving them a year by freezing it a year that they'd go to their software, the counties do, to their software peddler and say, we need to redo our formula that we'd do five years and we'd throw out the...we address the 20 percent that are the lowest ratios. That's not a big thing. All the sales records are there. The state has them on a database for over five, whatever, since we started turning this over to the state. They have every sale ten years back in a database. Go ahead. Thank you. [LB717]

SENATOR BRASCH: Very good. [LB717]

SENATOR GLOOR: Senator Schumacher. [LB717]

SENATOR SCHUMACHER: Thank you, Senator Gloor. Is there any theoretical underpinning from a statistical point of view as to removing the 20 percent? Is there some statistical... [LB717]

SENATOR GROENE: I looked at going back two years. We've had two very out-of-control years with valuation increases with ag. So 20 percent took it back. It's one out of five. [LB717]

SENATOR SCHUMACHER: I mean was that, the 20 percent, was that a kind of an arbitrary thing, what... [LB717]

SENATOR GROENE: It's...yeah, because of where it took us to. It took us back to a little above two years ago. [LB717]

SENATOR SCHUMACHER: Okay. Did you talk to any statisticians about applying what they call nonparametric statistics to small sale populations? [LB717]

SENATOR GROENE: No, but I talked to Ruth and Derrick and that's their background and those folks have been around for 30 to 40 years in the Revenue Department. [LB717]

SENATOR SCHUMACHER: And... [LB717]

SENATOR GROENE: Did a statistician come up with three years and two years for residential? I don't think so. [LB717]

SENATOR SCHUMACHER: I think there's a thing called nonparametric statistics in which you can get a mathematically valid way to throw out extremes rather than just... [LB717]

SENATOR GROENE: Well, one thing I looked at is, if you look at that chart, at what point do you get closer to...if you took 10 percent, it threw out 40 percent of the...30 to 40 percent of some of the sales of the overall valuation; 20 percent start matching up closer to throwing out the highs if you look at...where is it? Not in agriculture...well, in agriculture, with 20 percent it was 27, 24, 32, 37 (percent) statewide. It got closer, the 20 (percent), to how much it varied it, the 37 percent versus 10 and... [LB717]

SENATOR SCHUMACHER: And the other question, you've mentioned several times, look who took the hit. You also mentioned that most of these sales occur in the context of an estate. [LB717]

SENATOR GROENE: Yeah. [LB717]

SENATOR SCHUMACHER: Who got the benefit? [LB717]

SENATOR GROENE: I'm not going there with you on your capital gains and your inheritance tax because... [LB717]

SENATOR SCHUMACHER: Well, but really... [LB717]

SENATOR GROENE: ...I've got an answer for that, too, but I'll work with you next year on that. But that's...we're looking at valuations here. [LB717]

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SENATOR SCHUMACHER: Well, but really valuation and taxes on property go hand in hand. And somebody got one heck of a benefit out of this increase in value and you've correctly identified it's the heirs who walk away with no taxes. [LB717]

SENATOR GROENE: But that, you can't blame the neighbor who still farms. The heirs might have went off to Florida with the money they got, but the poor guy farming next to that land they sold got hit with a huge property tax, and that's who I'm looking after, not the heir that lives in Florida. [LB717]

SENATOR SCHUMACHER: Well, why should we let that heir get out tax free with millions of dollars? [LB717]

SENATOR GROENE: That's another issue. Maybe I'll get on the Revenue Committee with you next year, I don't know. [LB717]

SENATOR HARR: Oh, jeez. [LB717]

SENATOR SCHUMACHER: Thank you. I... [LB717]

SENATOR GROENE: I mean, but I'm looking at value. I'm looking at the person who's farming, the one...the loyal Nebraskan who stays here. And because some heir sold some...made a good profit on inheritance, he doesn't care. The five neighbors around there or the four neighbors on four sides of that farm, he just got hit with a heck of a property tax increase. [LB717]

SENATOR SCHUMACHER: Well, thank you for bringing this bill, got a lot of creative thought into it. You're trying to think outside the box and, gosh knows, there's nothing inside the box. [LB717]

SENATOR GROENE: I looked at what you guys did on the Tax Modernization Committee and this is the only one that even tries to address it. [LB717]

SENATOR SCHUMACHER: Thank you. [LB717]

SENATOR GROENE: And that's why you guys spent all that time together, didn't you, two summers ago? [LB717]

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SENATOR GLOOR: (Exhibits 7-10) Thank you, Senator Groene. I'm going to read into the record some letters of proponents that we have: Tom Hansen, Hansen 77 Ranch--if that's a familiar sounding name to some of us, it is former State Senator Tom Hansen; Mary Lou Block, Gothenburg, Nebraska; Dennis Fujan, Nebraska Soybean Association; Larry Mussack, Nebraska Corn Growers Association. And with that, that ends the hearing on LB717 and we will now move to LB940, Senator Johnson. It's probably worth noting, Senator Johnson, that you've probably joined a very elite group of senators who can say in recent history they opened after 9:00 p.m. in the evening. (Laughter) [LB717]

SENATOR JOHNSON: Thank you. [LB940]

SENATOR HARR: And closed before 9:30. (Laughter) [LB940]

SENATOR JOHNSON: Well, I will guarantee that my opening will be shorter than the previous senator. [LB940]

SENATOR GLOOR: But don't take that to heart. [LB940]

SENATOR JOHNSON: No, no. Thank you. Good evening, Senator Gloor and members of Revenue Committee. My name is Jerry Johnson, J-e-r-r-y J-o-h-n-s-o-n, and I represent the 23rd District: Saunders, Butler, and most of Colfax County. In listening to and actually attending one of the joint committee hearings this past summer and fall, I was concerned that we might not see a proposed solution to the continuing issue of increasing property taxes, mainly in agricultural land. I did meet with staff members from this committee, from the Education Committee staff, the Governor's Policy Research Office, and the Governor as I continue to work on what I've labeled the Tax Stabilization Act, LB940. The Bill Drafters helped me to make sure this bill was constitutional. Here's a quick analysis of the way I've looked at what...where we've been. Let's take a cookie jar that's given to us every year and every year that cookie jar gets bigger and we keep filling it up and we empty it out, we fill it up again. Pretty soon we get sick because we're eating too much of that, and so we try and come up with something on the other side to kind of ease the pain and cover up the pain type of thing. And that's what I think we've done. We've allowed property taxes to go and we've brought back money to kind of cover it up and we haven't really addressed the problem. But the Legislature did start several years ago, even before we had these issues the last five or six years, with the state tax credit for all property owners because property tax was too high. And I've been part of that the last...this is the fourth year. We've increased the state tax credit and even been proud enough to say that...we've bragged about it. And now we're up to \$408 million every two years. I truly hope that we can pass property tax relief this year. If so, LB940 would not be needed. I offer this in case we are not able to pass new tax regulations. What does this do? Keeping in mind that there will be some pain in whatever we

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do as we look at...on local taxing bodies, we have dependent on property tax those local associations, those local agencies, and they've had a pretty good run over the year. If we had not had \$7 corn, the surge of the land sales would probably not have taken this big of a leap. Whether you call it freeze or whether you call it hold, my bill would freeze all property tax assessment with the January 1, 2016, level with one exception, and I'll talk a little bit about that. It would also freeze or hold the property tax credit at the level, 2015 level. This freeze would be in place for three years--this year and the next two years--as we work on the next budget. That's assuming we do not pass property tax relief. The goals for relief are somewhat different in different minds: less dependence on property tax for school funding; finding other ways or additional ways to fund schools; some type of a tax shift that the overall goal would be to try and lower property taxes. So if we don't pass this legislation this year, LB940 provides a control vehicle in our current system based on the growth and the decrease of the state budget, basically saying...well, not to say that we are doing a great job in controlling the state budget at 3 percent, but the growth of the tax credits and the growth of the assessment would be able to move the same level as the state tax budget. It would affect school funding. In years out, more schools would become equalized. This would not come in effect until 2018 and '19 and '19 and '20. The figures that I had given to me for the fiscal note pretty much agree with the numbers that Senator Groene had. Mine came out at \$45,000 the first...in '18-19 and \$90,000 in '19 and '20. Again, that's assuming we do not do anything with property tax. It's your decision what to do with this bill. I hope we don't have to utilize it. But it would be there as a place maker in case, because I think we need to do some kind of proper relief. I did look first at just ag land and decided I needed to include both commercial and residential. I looked at a cap which would allow assessments to go down if that's what the valuations did, but the bill writers indicated I could not do that, that it would not be constitutional. The freeze seemed to be a good feel to the constitution, put it that way. Not part of the bill but something that I would offer that I'm considering and I'm working on right now, I'll be introducing a resolution to conduct an interim study to create an agricultural tax valuation policy that provides a more stable taxing system plus a process to bring property values down to a policy that would be adopted by the Legislature as we would continue to develop long-term policy. I would do that in this interim and offer something for next year hopefully. That concludes my opening. [LB940]

SENATOR GLOOR: Thank you, Senator Johnson. Questions? I don't see any. [LB940]

SENATOR JOHNSON: That's good for me. [LB940]

SENATOR GLOOR: (Exhibits 1-3) I would read, as we move toward the proponents, we have letters from proponents: Mary Lou Block, again, from Gothenburg, Nebraska; Dennis Fujan from the Nebraska Soybean Association; and Larry Mussack, again, from the Nebraska Corn Growers Association. Those are proponents. And we'll move to proponents. I'd like to also say that, as I told you, you are a small and select, I'm sure, group introducing this late, but I'll bet

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anybody else who introduced that late didn't introduce in front of six of and eight-person committee still in attendance. So, my thanks as Chair for all the committee members who have hung around this late. Mr. Herz, nice to have you back. [LB940]

KEN HERZ: Okay. Yes. Good evening, Chairman Gloor, members of Revenue Committee. Again, for the record, my name is Ken Herz, K-e-n H-e-r-z. I'm here today on behalf of Nebraska Cattlemen in support of LB940. For the final time today you will hear me say property tax reform is the number-one priority of Nebraska Cattlemen. NC board supported LB940. In discussing Senator Johnson's tax stabilization measure, we especially supported freezing real property tax rates for a three-year period based on the January 2016 valuations. If the Legislature proposes and adopts reform during the three-year grace period, LB940 would end effective December 31 of that year. The reform legislation must include a decrease in the percentage of school funding provided by property taxes and that is exactly in line with the NC policy. We also support the provisions of the bill related to the budget growth that can be seen in political subdivisions matching the growth rate of the state's budget. In closing, Nebraska Cattlemen supports the concepts contained in LB940 and believe it would provide real, immediate tax relief for all property taxpayers in Nebraska. Thank you. [LB940]

SENATOR GLOOR: Any questions? Seeing none, thank you. You're not going to try and get back to Ericson tonight, are you? Aren't you from Ericson? [LB940]

KEN HERZ: No, I'm from south of Hastings: Lawrence. [LB940]

SENATOR GLOOR: Oh, okay. Are you going to try and get there tonight? [LB940]

KEN HERZ: Yeah. [LB940]

SENATOR GLOOR: Be careful. Other proponents. Mr. Rieker. [LB940]

BRUCE RIEKER: (Exhibit 4) My name is Bruce Rieker, B-r-u-c-e R-i-e-k-e-r, vice president of Government Relations for the Nebraska Farm Bureau Federation. I will be brief and then I will return to my seat. We support this proposal by Senator Johnson most notably because it contains a provision that requires the Legislature to act and pursue the reform. He has done an excellent job outlining the provisions of his bill. I don't need to go through that again. However, it creates somewhat of an incentive or requirement upon the Legislature to be doing things over the course of the stabilization period. And for that reason, we support this bill. [LB940]

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SENATOR GLOOR: Questions for Mr. Rieker? Seeing none, thank you for your testimony. Are there any other proponents of the bill? Anyone in opposition to the bill? [LB940]

LARRY DIX: Good evening, Senator Gloor, members of the committee. My name is Larry Dix, spelled L-a-r-r-y D-i-x, executive director of Nebraska Association of County Officials, appearing in opposition to LB940. And earlier this week I had a chance to visit with Senator Johnson, so I don't think there's anything I'm going to say here that's going to necessarily surprise him. When we looked through the bill, a couple of concerns that we thought we should bring forward. When you look at Section 4(3)(a), so we're on page 2 at about line 25, it talks about the state budget increases from the most recently completed fiscal year to the current fiscal year. Political subdivisions with levy authority may increase their levies by a percentage. And I'm not quite sure what that would do because we have a state budget increase on one side that's triggering a levy increase on the other side and I'm not so sure quite how that would work. When I first read it, I read it a second time because I was thinking that the state budget increase would be tied to a political subdivision budget increase. But the way the bill reads, it's the levy increase, so I think we've got a couple of moving parts. I'm not quite sure how that will play out. The other thing, when the state budgets on a biennial budget, on a two-year budget, I know we also have interim budget adjustments and this bill doesn't really talk about them. What would that do to the percentage of the levy in that interim period? So I think that certainly would have to be addressed. In here, this bill, similar to Senator Groene's bill, sets values at an assessed value as of January 1, so it locks that value in. So we have the same issue of if it was dryland and it turned to irrigated we would have to have some provision to alter the value in there because the way it's written it would just lock it in, same way on improvements. Then if we look at Section 6 on page 3, line 13: On January 1, the assessed value of all real property in this state subject to taxation shall be equal to its assessed value as of January 1 multiplied by the percentage growth in the state budget for the fiscal year. So your assessed value is here. If the state budget grows at 4 percent and you have assessed values that in the market are actually going down, those assessed values would actually be increased by 4 percent. So they would...it would force them to go up. So actually what we think in an ag market, what we think we're seeing with ag values, we think, as opposed to the ag values going down, they actually would go up because it would be tied to the state budget, whatever percent that would be. So, you know, just things like that that I think as a committee if you're going to look forward to moving that bill, I think there are some issues with the bill that probably need to be...have a pretty good look at. And with that--my red light is on--I'll end. Thank you. [LB940]

SENATOR GLOOR: Mr. Dix, would you guess also that...of course, the language is percentage growth. But if the state budget actually went down, God forbid, state budget goes down... [LB940]

LARRY DIX: It would work either way. [LB940]

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SENATOR GLOOR: Either way. [LB940]

LARRY DIX: Either way, yep. [LB940]

SENATOR GLOOR: Okay. Other questions? Seeing none, thank you. [LB940]

LARRY DIX: Thanks. [LB940]

RENEE FRY: Good evening. [LB940]

SENATOR GLOOR: Good evening. [LB940]

RENEE FRY: (Exhibits 5 and 6) Senator Gloor, members of the Revenue Committee, my name is Renee Fry, R-e-n-e-e F-r-y. I'm the executive director of OpenSky Policy Institute. I'm here today just to briefly speak to the control issue that Senator Jonson raised. And we would agree with Mr. Dix that we're not quite sure that this bill would actually do what I think is intended. So I really want to speak about what we think the intent of the bill is, which is tying local growth to state growth. And we do have concerns about doing that and our concerns really lie in the fact that local growth then could really be manipulated by really shifting more responsibility from the state to the local level. What I have handed out to you is what we call our mirror chart. And I apologize. I realize just a little while ago that this is an older version and it doesn't go out as far as we have, so I will e-mail a more recent version to everyone. But there is this direct relationship between state aid and local taxes. And so as state aid goes up, local taxes go down and vice versa. I have heard a few times today mentioned our rankings in terms of state support for local governments. We rank 47th in state aid for local governments; we specifically rank 49th in state aid for K-12 education. And so I think that's been mixed in through the conversation today, but I think it's really important as we're talking about these issues that there is this real direct relationship between local property taxes and state aid for local governments. I also wanted to mention, not so much with respect to this bill in particular, but I've heard throughout the testimony today a lot of concerns that have been expressed are sort of blaming of K-12 for increased spending. And so the other piece of paper that I handed out is a summary of a Legislative Fiscal Office report from August of 2015 that they did for the super committee, which I'm assuming that you all received a copy of. But what I wanted to really point your attention to was it talks about what's going on in terms of changing demographics in our state and the impact that that has on K-12 funding. And so if you look at that first paragraph, they found that costs don't significantly change if the number of students per class decline because they have fixed costs. So you still have to have a teacher; you still have to have a building; you still have to heat it. On the other hand, the larger growing districts are adding new buildings and staff to account for their growing enrollment. So if declining districts grow at inflation and

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growing enrollment districts grow at inflation plus enrollment growth, the overall statewide spending will always grow faster than inflation plus enrollment growth. On the back page I want to point you to at the top there we talk about overall growth in school fund disbursements over the last ten years has slowed to 4.1 percent, which is a decline from previous decades. And I'd turn your attention then as well to that second bullet, total school disbursements. All funds have increased an average to 3.5 percent per year over the past decade. And then the next bullet, the fastest-growing categories have been transportation and all other category, which is mostly federal grants, and then special education. So I just thought that this was an important conversation since there's been a lot of discussion today about increases in local government spending. And with that, I'd be happy to answer any questions. [LB940]

SENATOR GLOOR: Thank you. Questions for Ms. Fry? Seeing none, thank you. [LB940]

RENEE FRY: Thank you. [LB940]

SENATOR GLOOR: Anyone else in opposition to this bill? Anyone in a neutral capacity? Senator Johnson, you're recognized to close. [LB940]

SENATOR JOHNSON: I will be very brief. [LB940]

SENATOR GLOOR: You may make the good senator's 9:30 deadline. [LB940]

SENATOR JOHNSON: (Laughter) I hope so. I hope that we have a resolution. I don't expect this bill to be necessarily voted on and passed. I think it's a good place maker if we need to take part of this bill and in order to fill the gap. And I don't want to push it down the road. I want to utilize the expertise of our two term limited senators, Chairs of the two committees, to work on a resolution. And I have...Larry Dix and I did have some conversation. I would hope that next year, or if I'm reelected and here and part of it, that we will have resolution at least by next year and we won't have to worry about that two- or three-year period out there. And the other questions that there was a couple words in here that...where levy and it should have been assessment type of thing, so there's some cleanup there. But basically I offer this to use part of it if needed and hopefully we don't need it all. Thank you. [LB940]

SENATOR GLOOR: Thank you, Senator Johnson. Any final questions? There are none. Thank you very much. [LB940]

SENATOR JOHNSON: Thank you. [LB940]

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SENATOR GLOOR: And that ends the hearing on LB940 and that ends tonight's meeting. Thank you again, committee members, for your tenaciousness, and audience members the same way. [LB940]