

February 24, 2017

LB 602 – Sen. Erdman (Support)

Thank you. Senator Smith and Members of the Revenue Committee:

My name is Ken Herz (K-E-N H-E-R-Z) and I am here today on behalf of the Nebraska Agriculture Leaders Working Group which is comprised of the elected leaders of the Nebraska Cattlemen, Nebraska Corn Growers, Nebraska Farm Bureau, Nebraska Pork Producers, Nebraska Soybean Growers, and the Nebraska State Dairy Association. We are testifying in support of LB 602. This bill was introduced by Senator Erdman to adopt an income capitalization methodology – which is basically income divided by the rate of return, or capitalization rate – to valuing agricultural land. We would like to start by thanking Senator Erdman for his leadership on this issue and the thoughtfulness behind his approach.

Currently, Nebraska determines the taxable value of agriculture land using a comparable sales approach, while our bordering states use some form of an income capitalization approach. Our organizations, to various degrees, have policy supporting the use of an income-based approach to valuing agricultural land for tax purposes. The longstanding belief has been that an income approach – similar to that used in surrounding states – gets us closer to taxing ag land based on its true production capability. It also is a way to minimize outside influences which can drive ag land value beyond actual production capability.

As mentioned earlier, there are two basic parts to an income approach to setting value: an income figure and the capitalization rate. LB 602 takes an approach similar to that used in South Dakota to calculate gross income in terms of yields and prices over time. It also sets in law the landowners' share of income, again like South Dakota, and it sets a single capitalization rate statewide, like South Dakota and Iowa. Prior to the 1980s, Nebraska used an income approach to valuing land with a single capitalization rate which caused constitutional problems under the uniformity clause, so the Committee should examine this aspect carefully.

In analyzing the approaches used to value agriculture land in other states, we noticed a few aspects of note. In South Dakota, for instance, the Department of Revenue contracts with South Dakota State University to produce the “productivity value” for each county. We believe a shift to an income capitalization approach offers an opportunity to take advantage of the valuable talent and research in the Agriculture Economics department at the University of Nebraska.

Also, we would support capping the rate of growth in value, which is the case in Iowa and South Dakota. The income capitalization approach has merit and could provide more certainty to landowners, but this change is not guaranteed to prevent double digit growth in values from one year to the next or, in and of itself, reduce property taxes. Experience in other states has shown year-to-year jumps in value can still occur, the jumps just might take longer to materialize.

To conclude, it is the goal of the Ag Leaders to secure 600 million dollars in property tax reductions this legislative session. Based on our calculations that would bring the property tax

burden from 48 percent of the combined total of property, sales and income taxes to roughly 40 percent. No one wants to increase taxes, which is why we're working for revenue neutral solutions.

The Ag Leaders Working Group supports LB 602 and a shift to valuing agricultural land on an income basis as one part of the overall solution. We hope this Committee will work with our organizations to apply these and other improvements to the underlying bill.

Thank you. I'd be glad to answer questions.